San Diego County
Local Agency Formation Commission
Regional Service Planning | Subdivision of the State of California

SPECIAL MEETING AGENDA
SPECIAL DISTRICTS ADVISORY COMMITTEE

Friday, January 16, 2026
9:30 A.M. to 11:30 A.M.

In-Person Participation
Leucadia Wastewater District Boardroom
1960 La Costa Avenue
Carlsbad, California 92009

Chair Kimberly Thorner
Vice Chair Jack Bebee

Ann Baldridge RCD of Greater SDC	James Gordon Deer Springs FPD	Hector Martinez South Bay Water	Joel Scalzitti Helix WD
Jack Bebee Fallbrook PUD	Tracy Largent Port of San Diego	Rachel Mason Fallbrook Regional HD	Mike Sims Bonita-Sunnyside FPD
Paul Bushee Leucadia WWD	Albert Lau Santa Fe ID	Dave McQuead Rancho Santa Fe FPD	Kimberly Thorner Olivenhain MWD
Jeff Egkan North County FPD	Lindsay Leahy Valley Center MWD	Marty Miller Vista ID	

The Special Districts Advisory Committee is responsible for helping to inform the Commission on all germane items relating to San Diego LAFCO's regulatory and planning responsibilities affecting special districts.

The Committee will hold the January 16, 2026 meeting in person at the Leucadia Wastewater District, 1960 La Costa Avenue, Carlsbad, California 92009. In person attendance by the public is welcomed. The public may also watch, listen, and otherwise participate in the meeting remotely by any of the following options.

1. The public may watch and listen to the meeting live on YouTube using the link provided on our website homepage (www.sdlafco.org).

2. The public may watch, listen, and participate in the meeting by Zoom (https://zoom.us/) or by telephone at (669) 900-9128 using Meeting/Webinar ID: 895 6767 7168 and Passcode 508649. Please use the "raise your hand" function in Zoom or push *9 by telephone if/when you wish to speak. Then wait until your name is called before speaking.

   a) The public may provide eComments on any item by emailing erica.sellen@sdcounty.ca.gov
      - eComments received before 4:00 P.M. on Thursday, January 15, 2026, will be forwarded to the Committee and posted online before the meeting. They will also be referenced during the meeting.
      - eComments received during the meeting and before the subject item is concluded will be referenced and later posted online.

The Committee may proceed with the meeting, even where there is a disruption that prevents the Committee from broadcasting the meeting to members of the public or from receiving public comment from members of the public using a call-in option or internet-based service option, unless such disruption prevents a member of the Committee is participating under Government Code Section 54953, subdivision (e) or (f).

1. **9:30 A.M. – CALL TO ORDER BY CHAIR**

   a) **Welcoming Comments**

   b) **Roll Call**

   c) **Pledge Of Allegiance**

2. **AGENDA REVIEW BY CHAIR**

3. **OPEN EXPRESSION**
   This time is reserved for any member of the public to address the Committee on germane topics that are not directly part of the agenda. This includes requests for future Committee topics. Individuals are limited to three minutes.

4. **CONSENT ITEMS**

   a) **Approval of Meeting Minutes for October 17, 2025 (action)**
   The Committee will consider draft summary minutes prepared for the last meeting held on October 17, 2025. Staff recommends approval as presented. (Pages 5-12)

   b) **Progress Report on 2025-2026 Workplan (information)**
   The Committee will receive an update on the adopted workplan and activities related to the 30 special projects scheduled for 2025-2026. Information only. (Pages 13-18)

   c) **Special Districts Advisory Committee Election Results (information)**
   The Committee will receive results from the recent election to fill seven of the Committee's 15 seats. The newly elected members will serve four-year terms beginning January 1, 2026. This item is presented for information only. (Pages 19-22)

5. **BUSINESS ITEMS**

   a) **LAFCO 201 Presentation: Beyond the Basics (information)**
   The Committee will receive a presentation on existing and emerging interplay between state and local policies with respect to LAFCO's evolving oversight role of local agencies' jurisdictional boundaries and municipal service areas. No written materials.

   Contact: Keene Simonds, Executive Officer

   b) **Update on Development of Weighted Water Rate Comparators (discussion)**
   The Committee will receive an update on the development of weighted water rate comparators and an associated draft report – or Water Rate Comparator Study – prepared by consultant Tom Kennedy (Kennedy Water Consulting, LLC). The draft report provides a high-level, comparative assessment of key water rate drivers and introduces easy-to-understand metrics to support more informed discussions of water rates in future Municipal Service Reviews (MSRs). This item is presented for discussion and feedback. (Pages 23-60)

   Contact: Joelle Burila, Analyst + Tom Kennedy, LAFCO Consultant

BUSINESS ITEMS CONTINUED …

c) **Workplan Update on Legislative Proposal | Implementing Report Recommendations from UC Berkeley to Expand LAFCOs' Effectiveness (discussion)**
The Committee will receive an update on a San Diego LAFCO workplan project related to potential future legislation addressing water and wastewater service delivery. The effort builds on recommendations from a University of California, Berkeley report and involves coordination with the report's authors and other stakeholders, including peer LAFCOs, to develop draft statutory amendments. Consensus has been reached on proposed bill language, with current efforts focused on identifying a legislative author and potential sponsorship. This item is presented for discussion and Committee feedback. (Pages 61-76)

Contact: Priscilla Mumpower, Assistant Executive Officer

d) **Special District Spotlight: Leucadia Wastewater District Highlights (information)**
The Committee will receive a brief presentation from Leucadia Wastewater District staff on recent and ongoing projects. This item provides an opportunity to highlight accomplishments and current initiatives as part of the Special District Spotlight feature. No written materials.

e) **Selection of Chair and Vice Chair (action)**
The Committee will consider appointing officers – Chair and Vice Chair – for 2026 per policy. No written materials.

6. COMMITTEE MEMBER REPORTS

7. EXECUTIVE OFFICER REPORT

8. ADJOURNMENT

Attest to Posting:

Erica A. Sellen

Erica Sellen
Committee Secretary

Any person with a disability under the Americans with Disabilities Act (ADA) may receive a copy of the agenda or a copy of all the documents constituting the agenda packet for a meeting upon request. Any person with a disability covered under the ADA may also request a disability-related modification or accommodation, including auxiliary aids or services, in order to participate in a public meeting.

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4a

AGENDA REPORT
Consent | Action

January 16, 2026

TO: Special Districts Advisory Committee

FROM: Erica Sellen, Commission Clerk

SUBJECT: **Approval of Meeting Minutes for October 17, 2025**

SUMMARY

The Special Districts Advisory Committee ("Committee") will receive action minutes prepared for the last meeting held on Friday, October 17, 2025. The minutes are in draft-form and being presented for formal approval with any corrections identified by the Committee.

BACKGROUND

The Ralph M. Brown Act was enacted in 1953 and establishes standards for the public to attend and participate in meetings of local government bodies. The "Brown Act" requires – and among other items – public agencies to maintain written minutes for qualifying meetings.

DISCUSSION

This item is for the Committee to consider approving action minutes prepared by the Committee Secretary for the October 17, 2025 meeting consistent with the Brown Act.

ANALYSIS

The attached action minutes for the October 17, 2025 meeting accurately reflect the Committee's deliberations as recorded by the Committee Secretary. A video recording of the meeting has also been posted online at www.sdlafco.org/meetings.

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Kristi Becker, City of Solana Beach
Dane White, City of Escondido
John McCann Alt., City of Chula Vista
Chair Stephen Whitburn, City of San Diego
Marni von Wilpert, Alt., City of San Diego
Vice Chair Barry Willis, Alpine Fire Protection
Jo MacKenzie, Vista Irrigation
David Drake, Alt., Rincon del Diablo
Brigette Browning, General Public
Eileen Delaney, Alt., General Public

RECOMMENDATION

It is recommended the Committee approve the draft action minutes prepared for the October 17, 2025 special meeting as presented and consistent with Alternative One in the proceeding section.

ALTERNATIVES FOR ACTION

The following alternatives are available to the Committee through a single motion:

Alternative One (recommended):
Approve the draft action minutes prepared for the October 17, 2025 meeting with any desired corrections or clarifications.

Alternative Two:
Continue to the next regular meeting and provide direction to staff as needed.

PROCEDURES

This item has been placed on the Committee's agenda as part of the consent calendar. A successful motion to approve the consent calendar will include taking affirmative action on the staff recommendation as provided unless otherwise specified by the Committee.

Respectfully,

Erica A. Sellen

Erica Sellen
Commission Clerk

Attachment: as stated

DRAFT
SAN DIEGO COUNTY LOCAL AGENCY FORMATION COMMISSION
SPECIAL DISTRICTS ADVISORY COMMITTEE
SPECIAL MEETING
October 17, 2025

Sweetwater Authority's
Richard A. Reynolds Groundwater Desalination Facility
3066 N. 2nd Avenue, Hydro Station Room
Chula Vista, California 91910

1. 9:30 A.M. – CALL TO ORDER BY CHAIR

Chair Kimberly Thorner called the meeting to order at 9:33 a.m.

Chair Thorner welcomed new committee member, Tracy Largent with the Port of San Diego and thanked Hector Martinez for hosting the meeting.

Item 1a
ROLL CALL

Chair Kimberly Thorner requested a roll call from the Committee Secretary.

Members Present:	Members Absent:
Chair Kimberly Thorner (Olivenhain MWD)	Jeff Egkan (North County FPD)
Vice Chair Jack Bebee (Fallbrook PUD)	Rachel Mason (Fallbrook Regional HD)
Ann Baldridge (RCD Greater San Diego County)	Joel Scalzitti (Helix WD)
Paul Bushee (Leucadia WWD)	
James Gordon (Deer Springs FPD)	
Tracy Largent (Port of San Diego)	
Albert Lau (Santa Fe ID)	
Hector Martinez (South Bay ID)	
Dave McQuead (Rancho Santa Fe FPD)	
Marty Miller (Vista ID)	
Mark Robak (Otay WD)	
Mike Sims (Bonita-Sunnyside FPD)	

The Committee Secretary confirmed a quorum with twelve members present. The following members of San Diego LAFCO staff were present at roll call: Executive Officer Keene Simonds; Assistant Executive Officer Priscilla Mumpower; Local Government Analyst II Michaela Peters; Local Government Analyst I Meghan Traynor; Communications Associate Aiden Velasquez; GIS Analyst Dieu Ngu; and Commission Clerk Erica Sellen serving as Committee Secretary. LAFCO Consultants Patrick Bouteller, Mike Stein, Tom Kennedy, and Adam Wilson were also present. Chris Palmer, Senior Public Affairs Field Coordinator, CSDA was also present.

Item 1b
PLEDGE OF ALLEGIANCE

Hector Martinez (South Bay Water) led the Pledge of Allegiance.

2. AGENDA REVIEW BY CHAIR

Chair Thorner asked the Executive Officer if there were requests to remove or rearrange items on the agenda. The Executive Officer stated no changes were needed to the agenda.

Chair Thorner noted the meeting will have a hard stop time of 11:30a.m. so committee members may take a tour of the facility following the meeting.

3. OPEN EXPRESSION

Chair Thorner asked if there were any members of the public who wished to address the Committee on a germane topic that is not directly part of the agenda.

The Committee Secretary confirmed there were no pre-registered speakers and no live email comments.

4. CONSENT ITEMS

a) Approval of Meeting Minutes for July 18, 2025 (action)
The Committee considered draft summary minutes prepared for the last meeting held on July 18, 2025. Recommendation to approve as presented.

b) Progress Report on 2025-2026 Workplan (information)
The Committee received an update on the adopted workplan and activities related to the 30 special projects scheduled for 2025-2026. Information only.

c) Legislative Report (information)
The Committee received a report on legislation introduced this session relevant to San Diego LAFCO's regulatory and planning responsibilities. The item also provides an update on the Committee's interest and related San Diego LAFCO workplan direction to pursue legislation addressing recent recommendations in a U.C. Berkeley study. Information only, with the opportunity for the Committee to pull for discussion.

d) Update on Commission Action to Join Monterey LAFCO Amicus Brief (information)
The Committee received an update on San Diego LAFCO's recent action to join an amicus brief in support of Monterey LAFCO's appeal of a trial court decision with potential statewide implications. The Commission approved participation at its October 6th meeting and authorized contribution of up to $1,200. The brief, led by Monterey LAFCO and prepared by Nossaman LLP, seeks to affirm LAFCO decisions are governed by substantial evidence as provided under LAFCO law. Information only.

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On motion by Paul Bushee (Leucadia WWD) and seconded by Dave McQuead (Rancho Santa Fe FPD), the Committee unanimously approved the Consent Calendar.

5. BUSINESS ITEMS

a) Updated Rolling Five-Year Study Schedule (information)

The Committee received a report on the Commission's rolling five-year study schedule. This update followed the Commission's action in October 2025 to roll the existing schedule forward and reset the coverage period from FY 2026 through FY 2030, and aligning the study schedule with the adopted workplan. Two notable adjustments are included: removal of the now-completed Oceanside regional review and addition of several new reviews. Consistent with prior practice, the first two years correspond to municipal service reviews authorized and funded in the adopted workplan, including the newly added review of the Port District. The final three years function as an advanced planning tool to signal long-term intentions and provide local agencies and the public with notice of upcoming reviews. Information only, with the opportunity to advance formal comments and/or recommendations to the Commission as needed.

Staff presentation provided by Assistant Executive Officer Priscilla Mumpower.

Chair Thorner proceeded to invite questions and/or comments from the Committee.

No discussion. No action.

b) Update on High Priority Project | Municipal Service Review on Wholesale Water Agencies in San Diego County (discussion)

The Committee received an update on San Diego LAFCO's municipal service review (MSR) of wholesale water agencies in San Diego County—one of ten high-priority projects in the adopted 2025–2026 workplan. The study includes a comprehensive review of the San Diego County Water Authority (CWA) and a proportional review of the Metropolitan Water District of Southern California (MET). Discussion only, with an opportunity for the Committee to provide input on interests or priorities related to wholesale water service delivery and governance on behalf of special districts in San Diego County.

Staff presentation provided by Assistant Executive Officer Priscilla Mumpower.

Chair Thorner suggested having discussions on each of the four themes presented by the Assistant Executive Officer. Chair Thorner proceeded to invite questions and/or comments from the Committee.

General discussion from several Committee members followed covering the four themes including 1) governance and accountability, 2) potable reuse coordination, 3) defining service adequacy, and 4) encouraging signs. No action.

c) Update on Sustainable Agricultural Lands Conservation Grant (SALC 2.0) (discussion)

The Committee received update on the Commission's ongoing Sustainable Agricultural Lands Conservation (SALC) planning grant, known as "SALC 2.0." This project is being conducted in partnership with the County of San Diego's Planning and Development Services and builds on findings from the initial SALC grant to analyze economic challenges facing small-scale agricultural operations and identify policy solutions. SALC 2.0 is currently in its fifth phase to develop a strategic plan for incentives, technical assistance, regulatory

BUSINESS ITEMS CONTINUED…

Item 5c Continued…
improvements, and other support mechanisms for small-scale agriculture. Staff seeks Committee input on two key topics: incorporating agricultural analysis into the municipal service review program and establishing a regional working group to promote affordable water access for farmers and potential special district participation.

Staff presentation provided by Local Government Analyst II Michaela Peters.

Chair Thorner proceeded to invite questions and/or comments from the Committee.

General discussion followed. No action.

d) Workplan Update on High-Mid Priority Project | San Diego LAFCO Website Refresh + Content Expansion (information)

Due to time constraints, Chair Thorner pulled this agenda item, and it was not heard by the Committee.

e) Introduction | San Diego Unified Port District + Related Activities (information)
The Committee received an introduction to the San Diego Unified Port District. This introduction follows recent actions by San Diego LAFCO to formally include the Port as a special district under its oversight. As part of this action, the Port is now contributing an annual apportionment to LAFCO and is featured in the FY 2025–2026 workplan through the initiation of an inaugural Municipal Service Review. Information only, with an opportunity to provide feedback.

Tracy Largent, Chief Financial Officer/Treasurer of the Port, provided the Committee with an overview of the Port's mission, governance, and key activities relevant to special districts within San Diego County.

General discussion followed. No action.

f) Update: Development of Weighted Water Rate Comparison Formula (discussion)
The Committee received a verbal report on the development of a weighted water rate comparison formula being prepared in collaboration with consultant Tom Kennedy. The formula is intended for use in upcoming Municipal Service Reviews (MSRs) to enhance the evaluation of agencies' water rates. The update will highlight progress to date and next steps in incorporating factors such as topography and infrastructure variations among agencies. Discussion and feedback only.

Staff presentation provided by LAFCO Consultant Tom Kennedy.

Chair Thorner proceeded to invite questions and/or comments from the Committee.

General discussion followed. No action.

6. COMMITTEE MEMBER REPORTS

None.

7. EXECUTIVE OFFICER REPORT

Executive Officer Keene Simonds asked the Assistant Executive Officer to give an update on the Committee's Call for Nominations.

The Committee Secretary noted nominations are due no later than 5:00 p.m. on Friday, October 31, 2025.

8. ADJOURNMENT

With no further business, the Special Districts Advisory Committee meeting was adjourned at 11:47 a.m.

Attest:

Erica Sellen
Committee Secretary

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AGENDA REPORT
Consent | Information

January 16, 2026

TO: Special Districts Advisory Committee

FROM: Keene Simonds, Executive Officer
Priscilla Mumpower, Assistant Executive Officer

SUBJECT: **Progress Report on 2025-2026 Workplan**

SUMMARY

The Special Districts Advisory Committee ("Committee") will receive an update on the adopted 2025–2026 workplan and related activities. Of the 30 workplan projects, eighteen have been substantively initiated, with one now complete and eight others nearing completion. Since the Committee's last update, the most significant progress has occurred on the municipal service review of the County's two wholesale water service providers—the San Diego County Water Authority (CWA) and the Metropolitan Water District of Southern California (MET). LAFCO staff will soon issue administrative drafts to the agencies, initiating a formal 60-day review period. Separately, the annual updates to the Local Agency Directory and the Sphere of Influence–Municipal Service Review Registry are nearing completion. This item is provided for information only.

BACKGROUND

San Diego LAFCO adopted its current fiscal year workplan at a public hearing in May 2025. The workplan includes 30 special projects divided into two distinct categories – statutory and administrative – with priority assignments established by the Commission.

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DISCUSSION

This item provides the Committee with an update on the status of special projects approved as part of the 2025–2026 workplan. The attached status report summarizes progress on all 30 projects, with work underway on eight of the ten high-priority items. Since the October meeting, staff has continued advancing several major initiatives, as summarized below.

Priority No. 1a | Municipal Service Review: Wholesale Water Service Providers
This study evaluates the performance and governance of the region's two principal wholesale water agencies — the CWA and the MET. The review is intended to assess service efficiency, governance, and financial standing relative to regional demands, with a focus on capturing real-time operational adjustments in staff analysis. The project is being led by LAFCO staff with consultant support. LAFCO staff will soon issue complete administrative drafts with executive summaries as part of a formal 60-day review period. A public draft is expected to be presented to the Commission as early as April 2026.

Priority No. 4a |
Carlsbad-Encinitas Region Municipal Service Review: Part One – Carlsbad Subregion
This first part examines governance, service delivery, and fiscal accountability within the Carlsbad subregion involving the City of Carlsbad and the Carlsbad Municipal Water District. Technical drafts have already been reviewed and commented on by the agencies. LAFCO staff has advanced the project by recently issuing complete administrative drafts with executive summaries as part of a more formal 60-day review. A public draft on this first part is expected to be presented to the Commission as early as March 2026.

Priority No. 4b |
Carlsbad-Encinitas Region Municipal Service Review: Part Two – Encinitas Subregion
This second part examines governance, service delivery, and fiscal accountability within the Encinitas subregion involving the City of Encinitas, Olivenhain Municipal Water District, Leucadia Wastewater District, and San Dieguito Water District. Technical drafts have already been reviewed and commented on by the agencies. LAFCO staff will soon issue complete administrative drafts with executive summaries as part of a more formal 60-day review. A public draft is expected to be presented to the Commission as early as May 2026.

Priority No. 13 | Website Refresh and Content Expansion
A separate update will be provided on this High–Mid Priority project as part of Agenda Item No. 5a. The project was continued from the Committee's October meeting due to time constraints and involves working with an outside consultant to modernize and expand the SD LAFCO website, including enhanced content and end-user functionality.

In addition, staff is nearing completion of two administrative workplan items focused on annual reporting. Priority No. 25 (Mid–Low Priority) involves updating and publishing the

annual directory of local agencies subject to LAFCO oversight, and Priority No. 28 (Low Priority) involves updating and publishing an annual registry documenting recorded sphere of influence and municipal service review actions. As part of the annual update process, both items are expected to be completed and presented to the Commission in February 2026.

ANALYSIS

None.

RECOMMENDATION

This item is presented to the Committee for information only.

ALTERNATIVES FOR ACTION

None.

PROCEDURES

This item has been placed on the Committee's agenda for information as part of the consent calendar.

On behalf of the Executive Officer,



Priscilla Mumpower
Assistant Executive Officer

Attachment:

1) 2025-2026 Workplan Status

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Priority	Tier	Type	Project	Description
Ongoing	…	Statutory	Applicant Proposals and Requests	Prioritize resources to address applicant proposals and related requests
Ongoing	…	Administrative	Targeted LAFCO Presentations	Coordinate timely public outreach; emphasis on informing stakeholders ahead of MSR work
Ongoing	…	Statutory	Workplan and Budget Management	Actively manage the workplan and budget resources with regular updates to the Commission

Priority	Tier	Type	Project	Description	Status
1a	Highest	Statutory	MSR | Wholesale Water Service Providers	Service-specific study on principal wholesale water suppliers – CWA (comprehensive) + MET (abbreviated)	
1b	Highest	Statutory	MSR | Healthcare Districts	Service-specific study of the four healthcare districts in San Diego County; addendum expected	
3	Highest	Statutory	MSR | SANDAG	Agency-specific study of SANDAG (transportation, housing planning, + climate adaption planning)	
4a	Highest	Statutory	MSR | Carlsbad-Encinitas Region I: Carlsbad	Region-specific study on City of Carlsbad + Carlsbad MWD	
4b	Highest	Statutory	MSR | Carlsbad-Encinitas Region II: Encinitas	Region-specific study on City of Encinitas + special districts (Olivenhain, Leucadia, San Dieguito)	
6a	High	Statutory	MSR | Vista-San Marcos Region I: San Marcos	Regional MSR on City of San Marcos + special districts (Vallecitos, San Marcos FPD, Vista ID)	
6b	High	Statutory	MSR | Vista-San Marcos Region II: Vista	Regional MSR on City of Vista + Buena SD	
8	High	Administrative	White Paper | Homeless Services	Evaluate the scope-scale of homeless services in SD County + potential governance options	
9	High	Administrative	White Paper | Public Recreation @ City Reservoirs	Assess public recreation at City of SD's unincorporated reservoirs + potential governance alternatives	
10	High	Administrative	SALC Planning Grant 2.0	Complete multi-year grant to inform + enhance small farming operations in SD County	
11a	High-Mid	Statutory	MSR | Solana Beach – Del Mar Region I: Cities	Region-specific study on mid coast I-5 municipalities (Solana Beach and Del Mar)	
11b	High-Mid	Statutory	MSR | Solana Beach – Del Mar Region II: Districts	Regional MSR on mid coast I-5 districts (Santa Fe ID + CSA 17)	
13	High-Mid	Administrative	Website Refresh + Content Expansion	Work with outside consultant to design and launch website refresh w/enhanced end-user features	
14	High-Mid	Statutory	MSR | San Diego Unified Port District	Agency-specific study of the Port (harbor, recreation, public safety, + community development)	
15	High-Mid	Statutory	Special Study | Oceanside SCHD	Prepare special study on SCHD detailing revenues/expenses + potential governance alternatives	
16	Mid	Administrative	Outside Audit | RFP + Selection	Prepare and circulate RFP and select new outside auditor per GASB best practices	
17	Mid	Administrative	Outside Audit | FY2025	Complete outside audit of financial statements for FY25 with supplemental information	
18	Mid	Administrative	Pilot Grant Program	Establish pilot program to explore grant opportunities to help fund special projects at LAFCO	
19	Mid	Administrative	Special Districts Advisory Committee	Provide administrative support to the SDAC and hold no less than three meetings in FY2026	
20	Mid	Administrative	Cities Advisory Committee	Provide administrative support to the CAC and hold no less than two meetings in FY2026	

Priority	Level	Type	Project	Description	Status
21	Mid-Low	Statutory	RCD Ad Hoc Committee: Part II	Complete part II of RCD boundary true ups to inform sphere updates for local RCDs	
22	Mid-Low	Statutory	MSR | South Coast Region I – Cities	Region-specific study on south coast Cities (Chula Vista, Coronado, Imperial Beach and National City)	
23	Mid-Low	Statutory	MSR | Healthcare Districts: Addendum	Address community healthcare needs and related resources + potential governance alternatives	
24	Mid-Low	Administrative	Alternative Membership Organization	Work with other LAFCOs to receive/provide ongoing education and legislative advocacy services	
25	Mid-Low	Administrative	Annual Local Agency Directory	Update and publish annual local agency directory subject to LAFCO oversight	
26	Low	Administrative	Legislative Proposal | UC Berkeley Report	Sponsor/facilitate legislation implementing UC report recommendations on LAFCO efficiencies	
27	Low	Administrative	Commissioner Onboarding	Create a digital toolkit for new Commissioners to help acclimatize to LAFCO	
28	Low	Administrative	Annual SOI-MSR Registry	Update and publish annual registry showing all recorded SOI and MSR actions	
29	Low	Statutory	Applicant Procedures	Update and streamline LAFCO application materials + establish related protocols	
30	Low	Administrative	Featured Work + Tutorial Videos	Produce videos featuring special projects as well as primers on LAFCO duties for online distribution	
	Bullpen	Statutory	MSR | City of San Diego	Agency-specific study and core municipal service functions (water, wastewater, public safety, etc.)	
	Bullpen	Statutory	White Paper | Community Choice	Evaluate the scope and scale of CCAs in SD County and connectivity to LAFCO duties and interests	
	Bullpen	Statutory	Outreach to Sunset/Melrose "Island"	Perform targeted outreach to the island between Oceanside + Vista to assess service needs + possible annexation interests	
	Bullpen	Administrative	Service + Fiscal Indicators	Develop online browser feature to depict service + fiscal indicators among local agencies in SD County	
	Bullpen	Administrative	Liaison with Local Tribes	Establish communication protocols with local tribes with respect to shared interests in regional services + CEQA consultations	
	Bullpen	Statutory	Morro Hills CSD Follow Up	Coordinate and/or otherwise facilitate discussions with County Sheriff to enhance traffic enforcement within the CSD	
	Bullpen	Statutory	Policy Review | Health + Safety Fee Reductions	Review options to revise existing fee reductions for proposals/requests involving public health or safety threats	
	Bullpen	Administrative	LAFCO Meeting Room	Explore opportunities to secure a dedicated LAFCO meeting room with scaled dais and A/V enhancements	
	Bullpen	Statutory	White Paper | Garbage + Landfill Services	Evaluate the scope and scale of garbage collection and disposal services in SD County	
	Bullpen	Statutory	Legislative Proposal | G.C. 56430	Sponsor and/or facilitate amendments establishing community engagement enhancements in MSR statute	
	Bullpen	Statutory	White Paper | School Districts	Evaluate scope and scale of school districts and their baseline capacities for reference in municipal service reviews	
	Bullpen	Statutory	Policy Review | Island Annexations	Consider options to define "substantially surrounded" and provide related mapping services	
	Bullpen	Administrative	LAFCO Workshop	Organize a special workshop for the Commission to discuss strategic objectives over the next five-year period	
	Bullpen	Administrative	Public Access Television	Establish public broadcasting LAFCO meetings on local government channels	
	Bullpen	Administrative	Procedural Flow Charts	Create user friendly flow charts for various LAFCO statutory processes for online publication	
	Bullpen	Statutory	Policy | Fee Schedule Update	Review and update fee schedule to sync with current costs and related considerations	
	Bullpen	Statutory	Policy | CEQA Guidelines	Review and update existing CEQA Implementation guidelines relative to current statute and best practices	
	Bullpen	Statutory	Disadvantaged Unincorporated Communities	Update DUC mapping designations (DUC) in San Diego County based on current census information	
	Bullpen	Administrative	County Planning Groups	Monitor regular meetings of the County's 28 Planning and or Sponsor Groups and directly engage as appropriate	
	Bullpen	Administrative	Local Agency Finder Tool	Develop online feature for users to enter address to identify all overlapping local jurisdictions (cities and districts)	
	Bullpen	Statutory	Policy | Commission Rule No. 4	Modernize Rule No. 4 and its provisions to regulate special districts' service functions and classes	
	Bullpen	Statutory	Special Study | Escondido + Rincon	Study options to consolidate (functional and political) the City of Escondido and Rincon del Diablo MWD	
	Bullpen	Statutory	White Paper | JPAs	Evaluate the status of JPA filings in SD County relative to LAFCO's task in SB 1261	
	Bullpen	Administrative	Policy | Cities Advisory Committee	Coordinate with CAD in updating bylaws and related procedures to sync with current interests/priorities	
	Bullpen	Statutory	Legislative Proposal | G.C. 56133	Sponsor/facilitate amendments to clarify LAFCOs' authority to determine out-of-agency exemptions in (e)	

Complete | Near Complete | Underway | Pending

4c

AGENDA REPORT
Consent | Information

January 16, 2026

TO: Special Districts Advisory Committee

FROM: Erica Sellen, Commission Clerk

SUBJECT: **Special Districts Advisory Committee Election Results**

SUMMARY

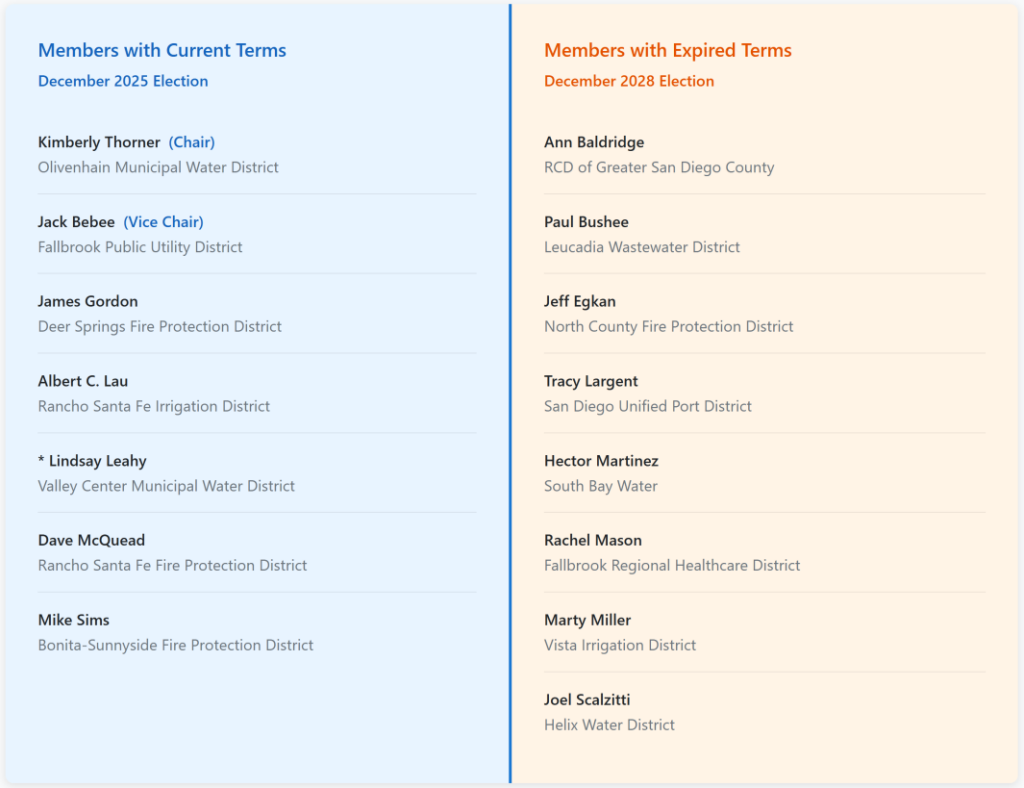
The Special Districts Advisory Committee ("Committee") will receive results from the recent election to fill seven of the Committee's 15 seats. An open nomination process conducted by LAFCO staff and extended to all 58 independent special districts resulted in ten nominees. A special mail-ballot election to select the seven representatives concluded on December 22, 2025, with ballots submitted by 31 districts. The newly elected members will serve four-year terms beginning January 1, 2026. This item is presented for information only.

BACKGROUND

The Special Districts Advisory Committee is composed of 15 elected representatives from independent special districts, with eligibility extended to both governing board members and senior agency staff. A listing of the current Committee membership is provided below and is organized to distinguish the seven newly elected members, whose terms expire in October 2029, from the remaining eight members, whose terms are scheduled for election in December 2028.

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Kristi Becker, City of Solana Beach
Dane White, City of Escondido
John McCann Alt., City of Chula Vista
Chair Stephen Whitburn, City of San Diego
Marni von Wilpert, Alt., City of San Diego
Vice Chair Barry Willis, Alpine Fire Protection
Jo MacKenzie, Vista Irrigation
David Drake, Alt., Rincon del Diablo
Brigette Browning, General Public
Eileen Delaney, Alt., General Public



Members with Current Terms
December 2025 Election

Kimberly Thorner (Chair)
Olivenhain Municipal Water District

Jack Bebee (Vice Chair)
Fallbrook Public Utility District

James Gordon
Deer Springs Fire Protection District

Albert C. Lau
Rancho Santa Fe Irrigation District

*** Lindsay Leahy**
Valley Center Municipal Water District

Dave McQuead
Rancho Santa Fe Fire Protection District

Mike Sims
Bonita-Sunnyside Fire Protection District

Members with Expired Terms
December 2028 Election

Ann Baldridge
RCD of Greater San Diego County

Paul Bushee
Leucadia Wastewater District

Jeff Egkan
North County Fire Protection District

Tracy Largent
San Diego Unified Port District

Hector Martinez
South Bay Water

Rachel Mason
Fallbrook Regional Healthcare District

Marty Miller
Vista Irrigation District

Joel Scalzitti
Helix Water District

***** Lindsay Leahy was elected to the position over incumbent Mark Robak.

DISCUSSION

The required quorum for the Special Districts Advisory Committee election was achieved, with 31 of the 58 independent special districts returning ballots by the December 22, 2025 deadline. A total of 198 votes were cast among the 10 nominees. A list of districts that submitted ballots, along with a complete summary of the election results, is provided as part of Appendix A.

RECOMMENDATION

This item is presented to the Committee for information only.

ALTERNATIVES FOR ACTION

None.

PROCEDURES

This item has been placed on the Committee's agenda as part of the consent calendar. A successful motion to approve the consent calendar will include taking affirmative action on the staff recommendation unless otherwise specified by the Committee.

Respectfully,

Erica A. Sellen

Erica Sellen
Commission Clerk

Appendix:

A) Special Districts Election Results & Participating Districts

Appendix A

Special Districts Advisory Committee Election Results & Participating Districts

Special Districts Advisory Committee Election Results

Nominee	Agency	Votes Received
Albert C. Lau	Santa Fe Irrigation District	26
Kimberly Thorner	Olivenhain Municipal Water District	26
Jack Bebee	Fallbrook Public Utility District	25
James Gordon	Deer Springs Fire Protection District	24
Dave McQuead	Rancho Santa Fe Fire Protection District	23
Lindsay Leahy	Valley Center Municipal Water District	20
Mike Sims	Bonita-Sunnyside Fire Protection District	19
Erica Wolski	Ramona Municipal Water District	15
Mark Robak	Otay Water District	13
Kurt Worden	Lower Sweetwater Fire Protection District	7
TOTAL		198

Participating Special Districts (Ballots Submitted)

1. Alpine Fire Protection District
2. Bonita-Sunnyside Fire Protection District
3. Deer Springs Fire Protection District
4. Fallbrook Public Utility District
5. Fallbrook Regional Health District
6. Grossmont Healthcare District
7. Helix Water District
8. Lakeside Fire Protection District
9. Lakeside Water District
10. Leucadia Wastewater District
11. Lower Sweetwater Fire Protection District
12. Mootamai Municipal Water District
13. North County Fire Protection District
14. Olivenhain Municipal Water District
15. Otay Water District
16. Padre Dam Municipal Water District
17. Pauma Municipal Water District
18. Pomerado Cemetery District
19. Rainbow Municipal Water District
20. Ramona Municipal Water District
21. Rancho Santa Fe Fire Protection District
22. Resource Conservation District of Greater San Diego County of San Diego
23. Rincon del Diablo Municipal Water District
24. San Miguel Consolidated Fire Protection District
25. Santa Fe Irrigation District
26. South Bay Water
27. Valley Center Fire Protection District
28. Valley Center Municipal Water District
29. Vista Fire Protection District
30. Vista Irrigation District
31. Yuima Municipal Water District

5b

AGENDA REPORT
Business | Discussion

January 16, 2026

TO: Special Districts Advisory Committee

FROM: Priscilla Mumpower, Assistant Executive Officer
Joelle Burila, Analyst I
Tom Kennedy, LAFCO Consultant

SUBJECT: **Update on Development of Weighted Water Rate Comparators**

SUMMARY

The Special Districts Advisory Committee ("Committee") will receive an update on the development of weighted water rate comparators and an associated draft report – or Water Rate Comparator Study – prepared by consultant Tom Kennedy (Kennedy Water Consulting, LLC). The draft report provides a high-level, comparative assessment of key water rate drivers and introduces easy-to-understand metrics to support more informed discussions of water rates in future Municipal Service Reviews (MSRs). This item is presented for Committee discussion and feedback.

BACKGROUND

At the Committee's April 2025 meeting, LAFCO staff provided a verbal update on the intent to develop a weighted water rate comparison framework for use in MSRs, in collaboration with consultant Tom Kennedy. Following Committee discussion, a working group was established to support study development. The working group consists of Chair Kimberly Thorner (Olivenhain Municipal Water District), Vice Chair Jack Bebee (Fallbrook Public Utility District), Paul Bushee (Leucadia Wastewater District), and Albert Lau (Santa Fe Irrigation District) and facilitated by consultant Tom Kennedy.

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Jo MacKenzie, Vista Irrigation
David Drake, Alt., Rincon del Diablo
Brigette Browning, General Public
Eileen Delaney, Alt., General Public

DISCUSSION

This item provides the Committee with an update on the development of weighted water rate comparators and the associated draft Water Rate Comparator Study, prepared by Kennedy Water Consulting, LLC. The report reflects input from the working group and incorporates best practices for evaluating water rates while accounting for agency-specific characteristics such as system configuration, topography, and infrastructure.

The study presents a high-level overview of the structural and operational factors influencing water rates across the San Diego region and identifies comparative metrics related to system density, topography, development activity, local treatment, access to lower-cost supplies, and reliance on higher-cost sources such as desalination or potable reuse. The analysis finds that many differences in water rates are driven by factors largely outside an agency's control. It also highlights growing concerns related to underfunded capital improvement programs and the implications for long-term service reliability, consistent with LAFCO's responsibilities. The report identifies opportunities for improvement, including enhanced asset management practices to better prioritize capital investments and potential legislative approaches to support more equitable and stable funding of long-term infrastructure needs.

A comprehensive verbal presentation will be provided by Tom Kennedy. A copy of the draft report is provided as Attachment One.

ANALYSIS

None.

RECOMMENDATION

This item is presented to the Committee for discussion and feedback.

ALTERNATIVES FOR ACTION

None.

PROCEDURES FOR CONSIDERATION

This item has been placed on the Committee's agenda for discussion as part of the business calendar. The following procedures are recommended:

1) Receive verbal presentation from staff unless waived.
2) Invite comments from interested audience members if any.
3) Discuss and provide general feedback as needed.

On behalf of staff,

Joelle Burila

Joelle Burila
Analyst I

Attachments:
1) Water Rate Comparator Study Report

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San Diego Local Agency Formation Commission

Special District Advisory Committee

Water Rate Comparator Study Working Group

Water Rate Comparator Study Report

December 2025

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Prepared by

Kennedy Water Consulting, LLC

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Executive Summary

Water rates in San Diego County continue to rise, and the reasons behind these increases are often unclear to the public. In response to growing concern and frequent discussions of rate impacts during Municipal Service Reviews, the San Diego County Local Agency Formation Commission (SD LAFCO) directed its Special District Advisory Committee (SDAC) to examine why water rates vary so widely among agencies. This Water Rate Comparator Study is intended to offer an accessible overview of the primary factors influencing those differences.

The study team developed a set of practical, easy-to-understand metrics to illustrate key characteristics that inherently drive rates higher or lower. The effort did **not** evaluate whether any agency's rates are "good" or "bad." Instead, the metrics highlight relative influences such as system density, topography, development activity, local treatment, access to low-cost supplies, and reliance on high-cost sources like desalination or potable reuse. These indicators, based solely on publicly available data, are intended as comparative tools rather than precise measurements.

A central theme that emerged is the growing importance—and underfunding—of capital improvement projects (CIPs). Water systems across the county rely on infrastructure built decades ago, much of which is approaching or beyond its intended lifespan. The American Water Works Association and American Society of Civil Engineers have produced numerous reports highlighting this nationwide challenge. While agencies must charge for immediate operating costs and wholesale water costs, capital reinvestment is frequently the only discretionary lever available when trying to limit rate increases. As a result, many agencies defer needed replacements, leading to system-wide reinvestment levels far below what would be required to maintain assets on reasonable replacement cycles.

Two high-level capital spending metrics were developed to help SD LAFCO gauge whether agencies are keeping pace with infrastructure needs. These metrics reveal significant variation across agencies and indicate that investment levels at some agencies may not be consistent with long-term sustainability.

Overall, the study concludes that many factors outside an agency's control—geography, system layout, supply sources, and wholesale costs—play major roles in rate differences. At the same time, underfunded capital programs pose a growing challenge for agencies and for LAFCO's role in ensuring future service reliability. The report suggests two areas for improvement: adoption of advanced asset management practices to better prioritize spending, and potential legislative changes to provide more equitable and stable methods to fund long-term infrastructure needs.

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Introduction

Within San Diego County, a myriad of public policy issues are stridently debated by individuals and groups with diverse opinions. Should we invest in more transit or better freeways? How should we manage the costs of solid waste disposal? Where should high density development be built? These questions – among many more – have proponents and objectors with different opinions on the solutions.

There is one public policy area where near unanimous agreement exists – the cost of water has been increasing steadily and there is no relief in sight. Irrespective of political leaning, geographical location, social status, or any other common differentiator among social groups, the ever-increasing cost of water has a unified impact on the public – water bills are straining already strained family budgets.

The San Diego County Local Agency Formation Commission (SD LAFCO) is the government agency created by the legislature to set the boundaries of public agencies, determine the municipal services they are authorized to provide, and also to perform periodic reviews of the public agencies that deliver those services within the County. These Municipal Service Reviews are intended to ensure each public agency charged with the provision of a particular municipal service is doing so effectively. Water providers, whether through a City or a Special District, are among the agencies that are periodically evaluated by SD LAFCO.

Over the last few years, the cost of water has become front page news with heated debates at City Council meetings and agencies across the county, with water rate increases significantly outpacing inflation. The cost of water has also factored into numerous proceedings at SD LAFCO and has been a decisive factor in decisions placed before the Commission. In response to this, the Commission requested LAFCO staff perform a study on water rates in the region.

The overarching goal was to help the Commission, and the public, understand why water rates vary from agency to agency. This document is the result of that request.

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The Study Team

SD LAFCO has two special committees that are comprised of representatives from the agencies within the county. The individuals who serve on these committees, the Cities Advisory Committee and the Special District Advisory Committee, are elected via a vote of the member agencies subject to SD LAFCO. The Water Rates Comparator Study Project was assigned to the Special District Advisory Committee (SDAC).

At the SDAC meeting in April 2025, the assembled members discussed the project, facilitated in the discussion by Tom Kennedy of Kennedy Water Consulting, LLC, a water agency expert consultant to SD LAFCO. The discussion was wide ranging and numerous points of view were expressed. Despite the reservations of some, SDAC Chair Kimberly Thorner of Olivenhain Municipal Water District created a working group – tasked to work on the project, alongside Mr. Kennedy. The working group consisted of the following members:

Kimberly Thorner, Olivenhain MWD
Albert Lau, Santa Fe Irrigation District
Jack Bebee, Fallbrook Public Utility District
Paul Bushee, Leucadia Wastewater District
Tom Kennedy, Kennedy Water Consulting, LLC

Over the course of multiple meetings throughout the summer of 2025, the working group debated numerous factors that complicate such an analysis. The first was to develop what success in the endeavor looked like, followed by questions about data availability, data relevance, and the challenges of making "apples to apples" comparisons. Numerous concepts for reference metrics were suggested, tested, and abandoned due to these complications. However, the working group was able to distill down several metrics that were found to be illustrative of the several factors that influence varying water rates across agencies in the region.

Study Constraints – What This Report Is And Is Not

As noted by the SDAC member whose initial reaction was this effort was destined to fail, the development of a comprehensive water rate comparator system is extremely challenging. The work presented here reflects those challenges. At the outset of the effort, the working group defined several constraints for the study:

- The working group would not define any agency rates as "good" or "bad"
    - Water rates are very agency specific. The fact that one agency's rates are lower than another does not mean that the agency with higher rates has set them incorrectly or that the agency is somehow underperforming
- The working group would use publicly available data that is included in normal financial or other reports from agencies
    - This was to ensure consistency but also to avoid "cherry picking" of data
- The working group chose metrics that we expect to be easily understood by the public and the Commission

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- While there are nuanced, complicated financial metrics that may have added value, the complexity of these metrics would make them understandable by accountants but not many others

It is important to note here that the metrics that were developed using publicly available data are derivatives of that data and thus subject to errors. The underlying data was never intended for the type of analysis presented here and thus represent a good, but not perfect, source of information.

The metrics presented here are not intended to represent exact values. In fact, for most of the metrics, the working group does not use numerical indicators at all to avoid them being used as exact measurements. ***These are relative comparators only and should be viewed/used as such.***

Through the distillation process of metric selection using the constraints described above, the working group arrived at a useful, but truncated set of metrics. There are many factors not evaluated in this study that contribute to the water rates for individual agencies. While additional data sets could be developed with enough effort, that was outside the scope of this project.

The working group recommends SD LAFCO staff use this study in the way it is indented: as a first glance look at water rates. Should the results for any agency stand out in comparison to others, ***that result should be the starting point for additional study, not a conclusion of any type.*** This study is not a substitute for agency specific financial analyses when conducting Municipal Service Reviews.

How are Water Rates Established?

To the public, the way water rates are established can be confusing, shrouded in complicated tables and charts. The processes used to create water rates are seemingly well understood but only by industry insiders and the consultants who assist agencies in their development. Public notices for rate increases are often filled with language that has been vetted by attorneys and is written to comply with statutory rules more than for the purpose of clear communications. These complex and often confusing communications sometimes reinforce suspicions of overcharging rather than easing them.

The challenge faced by water agencies is that there are numerous regulations that constrain any semblance of flexibility in the rate setting process. Voter initiatives, such as Propositions 26 and 218, have limited the options available for water agencies to consider

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equity or other matters within their rate structures. A cottage industry of law firms scrutinizes every rate change, looking for a way to challenge the rates and generate legal fees. Several agencies in San Diego County, including the City of San Diego, who used "inclining block rates" to shield lower income customers from high water bills, were challenged in court and lost.[1] Agencies are now focused on avoiding litigation - at the expense of more equitable rate structures which have been found to be illegal.

Put simply, water rates are set to generate the required revenue to cover the costs to procure, treat, and deliver water to the customers of each agency. For each rate increase process, agencies must identify their expected costs for an upcoming year(s), which includes capital replacement costs for aging infrastructure. These costs are then apportioned to various cost categories which are then assigned into rate categories – some fixed and others variable.

For instance, the costs to manage an agency's meter reading and billing functions are generally shared equally among all accounts, since the costs are similar for each customer. These costs are generally applied to the fixed monthly service charge levied on all customers.[2] The costs for the actual water, treatment, pumping, and the like are generally added up and then put into the variable portion of a water bill that is charged based on the volume of water used. The concept here is that the more water you use, the more you pay. To encourage conservation and discourage water waste, many agencies used inclining block rates.

While well intended, and as previously mentioned, many rate structures of this type have been found to be illegal. In response, agencies are increasingly reverting to "flat" rates where the charge is the same per unit volume of water irrespective of how much is used. This avoids the prospect of litigation but is also seen as a less equitable rate structure. Unfortunately, Propositions 26 and 218, along with the numerous case law standards established since their passage, have severely limited flexibility in rate setting.

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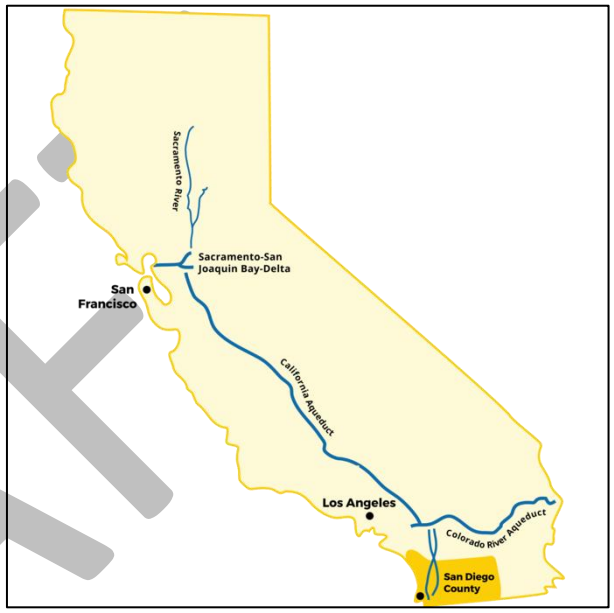
[1] Inclining block rates are rate structures where the volumetric charge increases incrementally as the total amount of water used increases.

[2] Note that these are simplified examples of cost allocations to rate components. In reality, there are much more complex allocation systems in use.

Capital Spending and Water Rates

What it takes to get water here

Water is free of charge when it falls from the sky in the form of rain or snow, so the question many have is why does it cost so much at the tap? In many parts of the US and within California, water is much less expensive than in San Diego County, so why are we paying so much?



The reality is that the amount of rain and snow that falls in San Diego County is insufficient to support even a fraction of the current population. Since World War II, when the first imported water pipelines were connected to San Diego County, the region has relied increasingly on water supplies that come from hundreds of miles away. The two main sources, the Colorado River and northern California via the State Water Project, are an engineering marvel that has allowed San Diego County to grow into the vibrant economy and communities we enjoy today.

Getting that water from far away sources and to the taps of customers is heavily dependent on infrastructure. From a dam high in the Sierra foothills or from the Colorado River, through a series of canals, pump stations, intermediate reservoirs, large diameter pipelines, and treatment plants, the water we use passes through many billions of dollars' worth of infrastructure before it even gets to the County line. Here in San Diego County, the San Diego County Water Authority (SDCWA) operates additional dams, reservoirs, large diameter pipelines, and treatment plants. SDCWA has invested billions in the County to ensure the water is safely brought into the county and delivered to its 22 member agencies.

At the local level, the retail agencies also must invest in the infrastructure needed to reach every home or business in their service area. Additional pipelines, storage reservoirs, treatment plants, pump stations, fire hydrants, and other associated structures add to the tally of infrastructure that is required for customers to use the water that started out hundreds of miles away.

The cost for all the infrastructure required to safely and reliably make our lives and economy possible is embedded in the retail rates charged by local water agencies. The costs for the big statewide systems are passed down from the State of California

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Department of Water Resources (DWR) to the Metropolitan Water District of Southern California (MWD), to SDCWA, and then down to the retail agency level. It is not uncommon for costs from the big regional wholesalers to make up over 50% of the total cost of every water bill – before the local agency has even added a cent to cover the costs for supplying each community.

Capital Assets and Capital Spending

The provision of water is heavily dependent on the infrastructure, or capital assets, described above. Water agency finances are centered on the construction, operation, and maintenance of these assets. The cost of the employees of most water districts routinely represents less than 20% and sometimes less than 10% of the charges on water bills. The rest pays for capital assets, power to pump the water, and water purchases if you lack a local supply.

When SD LAFCO is reviewing whether an agency is providing a municipal service properly, it should not merely consider whether the agency is doing well in the present, but also if they are well prepared to provide this service into the foreseeable future. The provision of water services is dependent on infrastructure, so the proper funding of the repair, rehabilitation, and replacement of that infrastructure is a key concern for SDLAFCO.

A good deal of the water infrastructure in San Diego County was built out in the decades following World War II as the suburban expansion of the county progressed. Prior to the passage of Proposition 13 in 1978, many large infrastructure projects were financed through property tax assessments. If an agency needed new infrastructure, its board would vote to place an assessment on properties to pay off the debt over time.

Since Proposition 13, these board adopted assessments were banned, with a 2/3rds vote of the ratepayers required to approve the assessment. This high bar is very difficult to overcome, so few projects have been funded this way since. Water agencies shifted revenue generation to water rates. In the 1990s there was a sharp increase in the use of capacity fees that new connections must pay to access the system. Capacity fees can bring in significant amounts of revenue but are only a significant source of funds if there is a lot of development activity in your service area.

At the same time, the backbone infrastructure that was built out in the decades after World War II is at or near the end of their service lifespans. Most capital assets have lifespans that are 50 years, though some will last 75 and in some cases 100 years. Many agencies in San Diego County have a majority of the pipelines in their system that are over 50 years old. The Colorado River Aqueduct will turn 100 soon, adding to the challenge.

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When water rates are being developed, agencies in San Diego County must first cover the cost of the immediate needs for the current period. They need to buy the water from SDCWA, pump, store, treat, and distribute it to customers, and manage all of the day-to-day administrative tasks associated with the agency. These costs would represent the absolute minimum rates an agency could adopt and be able to serve the needs of its customers.



However, as infrastructure ages its condition deteriorates. Pumps stop working, water mains break, and electrical systems fail - among many other things. Water agencies must consistently reinvest in their local infrastructure to keep the water flowing and avoid serious damage from main breaks. Some of the infrastructure was built long ago in remote areas or sensitive habitat, so the repairs today are much more costly due to environmental restrictions.

In response, and when developing rates, each agency must collect money in excess of what it needs today to fund Capital Improvement Projects (CIP) designed to repair, rehabilitate, or replace failing assets, hopefully before failure results in the extended loss of service for customers. CIP costs are generally apportioned out to customers in their water bills either through the fixed monthly charge, the volumetric charge, or a combination of both.

A significant challenge for San Diego County agencies is the fact that both MWD and SDCWA have their own CIP programs that are significant drivers in the rates that are passed down to the retail agencies. The amount of CIP spending is debated heavily at these wholesale agencies, but once established the local agency has no choice but to pay them.

When a local agency is preparing its budget and considering the rates required to support both the needs of the wholesale agencies and its own system, they are often left with few options. They can't avoid wholesale charges and must recover enough costs to meet their minimum operating expenses. At the same time, agencies sincerely desire to invest in repairs or improvements to their local infrastructure. To navigate these constraints, finance staff at local agencies usually prepare multiple options that show the rate impacts of various combinations or levels of capital spending.

The reality is that rate setting by elected bodies is sometimes focused on the option that has the least rate impact on customers. This is understandable – everyone would like to

see the lowest rates possible. However, this process can lead to a situation where the future is cast aside for the present.

When staff at a water agency prepare a budget, it includes a certain amount of money for CIP spending. This amount is based on analysis by the agency's engineering or CIP program staff. The CIP plans are based on specific studies or local knowledge of which pipelines or facilities are in the worst shape.

When spending options are presented to elected bodies, the rate impact of each option is included for consideration. It is an unfortunate reality that agency budgets, and thereby rates are frequently set at the lowest possible rate by cutting CIP spending. The only real lever these agencies can use to reduce the budget is in CIP spending. This process has been repeated at most agencies year after year.

Questions like "can that pipeline last until next year?" or "can we defer that project until times are better?" are repeated in board rooms across the county and the state. The result is that the rate of reinvestment in capital assets is often well below what is required for long-term sustainability.

In a perfect world, if an agency has assets that have a 75-year lifespan they would fund a CIP program that would replace or rehabilitate each asset every 75 years. Several agencies have studied their CIP spending relative to how long it would take to replace the entire system. In 2015, Rainbow MWD's CIP program had long been hamstrung by rates that failed to fund the needed projects so they could keep rates low for agricultural users. This resulted in a replacement frequency that was well over 1,000 years. To lower its costs, Rainbow MWD initiated a LAFCO action to access lower cost wholesale supplies, but rates were held nearly constant, delivering much needed CIP funds using the savings from lower cost water.

Olivenhain MWD performed a similar study recently and found that at current spending rates their replacement frequency would be about 800 years. That study identified an annual cost of approximately $50 million in today's dollars to bring that frequency down to a level that matched expected pipeline lifespans. With a total annual operating revenue of about $60M in FY2023, this amount of spending would have significant rate impacts, nearly doubling already high rates.

Appropriate management of capital assets is costly, and funding these programs effectively is becoming one of the largest drivers in water rates. The unfortunate reality for most water agencies is that current capital programs are funded well below the levels at which a reasonable asset replacement frequency can be achieved. While these aging systems are holding up now, Father Time is undefeated – meaning infrastructure

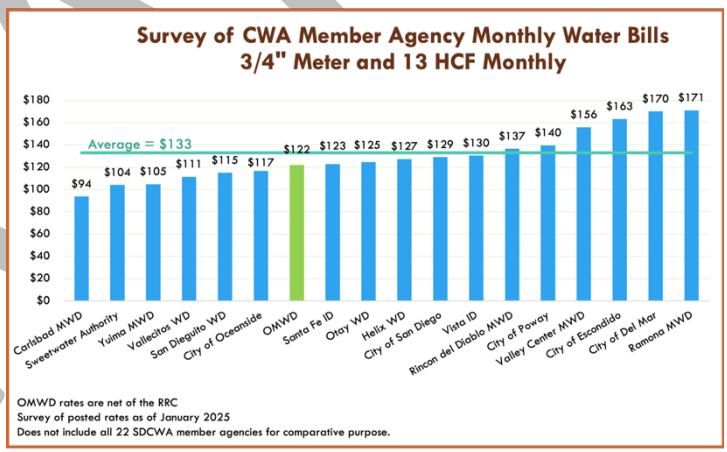
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degradation over time is inevitable, and significant reinvestment will be required to ensure the provision of safe, reliable drinking water in the not-too-distant future. In a later section, this report will provide some best practices that agencies can employ to address the issue in the most cost-effective way possible.

"Traditional" Water Rate Comparators

When publicly elected boards or councils are asked to approve increases in water rates, a commonly asked question is "how do our rates compare to other agencies in the region?" It is a fair question based mainly on a desire to ensure that the proposed rates are not excessive or out of line with the rates of neighboring agencies. Elected officials are hesitant to approve rates that appear to be higher than other agencies, irrespective of the fiscal realities facing their agency.

To provide this information to their respective boards, staff members at water agencies usually prepare a comparison graph showing the total charges for an "average" customer for their agency with charges from other regional agencies included for comparison. Since the charges from water agencies include both fixed monthly fees and volumetric rates based on consumption, staff must choose a particular customer class, meter size, and average volume of water to perform these calculations.



The figure on the right is a typical comparison chart. This one of several charts prepared recently by Olivenhain MWD, compares OMWD's total bill for a ¾" Single Family Home customer with consumption of 13 HCF (one HCF= one hundred cubic feet, or 748 gallons) per month. Other charts reflect different volumes of water and meter sizes.

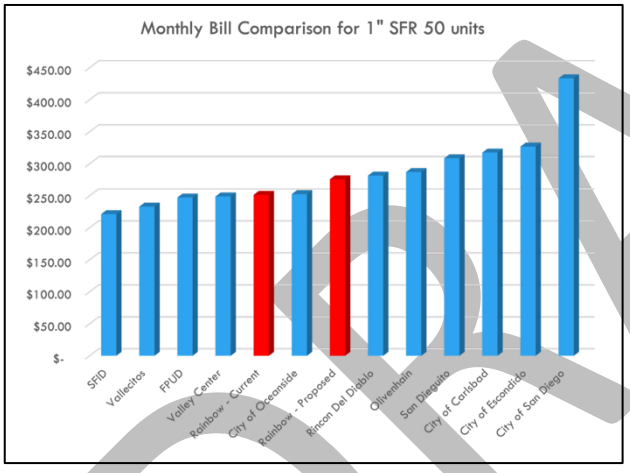
These charts, while certainly useful, can sometimes be misleading. The selection of the comparator agencies made by staff may not include all agencies, which is the case here. Since the charts generally use a self-selected volume of water for the calculation, the role of fixed monthly charges in shaping the total bill has a significant influence on the results and, thus the agency's "ranking" in total bill cost.

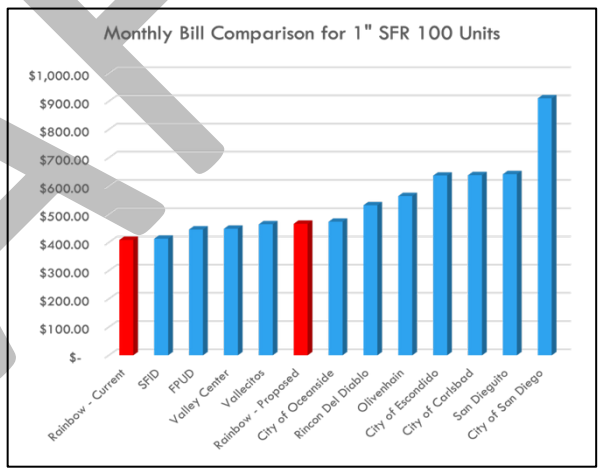
For example, in 2015 Rainbow MWD was adjusting rates for its customers, which tend to be larger lot customers whose water demands are, on average, much higher than urban or

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even suburban users. Within that agency, meter sizes are larger – such as 1" and larger – being much more common than urban/suburban agencies. Rural agencies tend to have higher fixed monthly charges and lower volumetric rates, which reflect the customer demand patterns within their service areas. Agencies with higher levels of demand variability due to weather tend to have higher fixed charges to stabilize revenues.

For these reasons, Rainbow, along with other more rural agencies tended to compare unfavorably when smaller amounts of water demands are used in these calculations. The larger monthly service fees are not offset by lower volumetric charges at these lower consumption levels. Below are two graphs from the 2015 analysis by Rainbow MWD that show how consumption (presented in "Units" which are the same as HCF) compared to other agencies.





These two charts show how at a consumption level of 50 units per month, Rainbow's current rates were in the middle of the pack, but at 100 units they were the lowest in the comparison group. Since many agencies have multiple customer classes each with multiple meter sizes (and monthly charges), these sorts of comparisons, while helpful for elected boards, don't always tell the whole story.

Revised **Methods of Analysis**

This study used two primary methods of analysis. The first method looked at qualitative metrics that compare several key characteristics of water agencies that can drive rates

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higher or lower, depending on the characteristic. The selection of these metrics by the working group used the parameters described above.

The second method of analysis represents a more quantitative assessment of capital spending. The data was derived from Annual Comprehensive Financial Reports that are published annually by each agency. These publicly available reports follow standardized formats that reduce, but do not entirely eliminate uncertainty in the results.

Key Characteristic Metrics

If all of the water agencies within the SDCWA service area are buying water at the same wholesale price, why do we see so much variability in the retail rates charged to customers? Do comparatively higher rates mean that the agency is inefficient or is simply overcharging customers? The reality is that there are certain inherent characteristics of water agencies that can drive rates higher or lower irrespective of administrative efficiency.

As noted in the introductory section, there are myriad variables that go into the relative cost structures of each water agency. No two are exactly alike and thus each has different cost components that make up their overall operating expenses. The working group considered many more key characteristics than what are presented here. Some were dropped because the data to calculate them was not readily available. Others did not make the cut because they were excessively complex and hard to understand.

Two metrics that could be useful, but were not included at this stage involve system age, and system complexity. System age would evaluate the age of the pipelines which can be, but is not always, related to the cost of repairs and replacement programs. System complexity would create a calculation based on the number of valves, pumps, pressure zones, tanks, and other facilities per customer. Both would require significant amounts of additional data to complete.

The following Key Characteristic Metrics were produced using readily available data and are understandable by the general public, and not limited to water experts. Note that each metric has a different method of calculation to create relative scores on a scale of 1 to 10. This method allows each metric to be shown as a relative contributor to higher or lower, water rates on the combined metrics chart.

The working group would like to emphasize that this is a novel effort. If any readers have any comments or suggestions for additional metrics or improvements of the metrics below, please contact San Diego LAFCO staff.

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System Density

The cost to operate a water system relies on the water distribution network that delivers the water to customers. The number of miles of pipe in each agency's distribution system varies widely, with the smallest having 44 miles of pipeline and the largest over 3,000 miles of pipeline. However, the overall length of the distribution system has less impact on water rates than the number of service connections per mile of pipe. If the cost of operating and maintaining pipelines is roughly equivalent per mile of pipe across all agencies, those with fewer customers per mile of pipe must charge each customer incrementally more because there are fewer customers to share the cost burden.

In general, more urbanized agencies have much higher system densities than rural agencies. The City of San Diego has the most pipelines in terms of miles of pipe but also has the highest system density at over 96 customer connections per mile of pipe. Yuima MWD, on the other hand, has only 7.9 customer connections per mile of pipe. Thus, the City of San Diego can spread every dollar spent on pipeline repair or replacement across ten times as many monthly bills than Yuima MWD can.

Calculation:

$$System\ Density = (Nc/Mp)/10$$

Where Nc=Number of Service Connections

Mp=Miles of Pipeline

System Topography

Water distribution systems are hydraulic systems – they operate on the basic principles of fluid mechanics. The pressure in the pipelines in the street are based on the hydraulic grade line of the system which is established using combinations of pumping systems, storage reservoirs, and pressure regulating stations. All of these systems work in concert to ensure the pressure at each customer connection is within an acceptable range.

In a relatively flat distribution system, fewer of these systems are required to either raise the water pressure at higher elevations, or reduce the pressure at lower elevations. In many flat systems outside of San Diego County, elevated tanks are used to establish adequate pressure for consumption. With few flat areas, San Diego County water agencies cannot take advantage of these simpler systems.

However, among the agencies in San Diego County the topography varies widely. Some systems, primarily coastal systems, have lower total elevation changes within their

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distribution systems than others, mainly the inland systems. Systems such as Carlsbad MWD, San Dieguito MWD, and the Sweetwater Authority have elevation differences of about 500 feet total from top to bottom. Other systems have much higher differences in elevation in their systems, with Rainbow MWD topping the list at about 2,200 feet.

Water is heavy, so with every 100 feet in elevation change, the system pressure will increase over 43 pounds per square inch (PSI). Considering that the maximum pressure allowed for residential plumbing fixtures is 80 PSI, absent active pressure management systems like Rainbow MWD would see incredibly high pressures in many parts of their service areas. Systems like Rainbow MWD operate dozens of pressure regulating stations creating separate pressure managed areas, where systems like San Dieguito has only a handful of distinct pressure zones.

In addition, imported water enters the County through SDCWA pipelines that operate as an open, falling grade line system. In the northern sections the water has a maximum elevation of about 1,300 feet above sea level. To protect their own pipelines from excessive pressure, this hydraulic grade line is reduced through a series of vents as the pipelines go south. By the time the water gets to the vents in the Miramar area the hydraulic grade line is under 900 feet.

Any agency who serves water at elevations above the available grade line in their service area must pump that water uphill to serve their customers at those elevations. Valley Center MWD operates well over 100 pumps for this purpose across dozens of pump stations.

The cost to operate both pumping systems and pressure management systems is much higher for agencies with larger differences in elevation within their distribution systems. An empirically derived formula was developed to assign a relative "score" to visualize the effect of different system topographies on water rates.

Calculation

$$Topography\ Score = 10.15 - (\frac{Dt}{220})$$

$$Where\ Dt = Elevation\ Difference\ of\ Distribution\ System$$

Note that this calculation was empirically derived to fit the scale of the metrics charts

Development Activity

As noted previously, when development activity occurs within an agency service area, each development project pays a capacity fee established by the agency as a condition of the approval to connect to the water system. These fees vary from agency to agency, but over

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the last 30 years have increased significantly, ranging from several thousand dollars to over $20,000 per connection (depending on meter size).

For agencies with higher rates of development, these capacity fees provide additional non-operating revenues that can supply much needed funds for CIP programs. Higher growth area agencies can hold water rates lower while still funding their CIP programs. Lower growth area agencies are not as fortunate and must recover funds for CIP directly from customers through water rates.

It should be noted that development activity happens in phases and cannot be counted on for future revenues except in areas with reliable long term growth projections. Most agencies will receive influxes of capacity fee revenue during build out of developments and then see it shrink to a trickle for years or decades. However, while an agency is in a development cycle their ability to collect non-rate revenue is greatly enhanced over agencies with little development activity.

To assess this metric, the amount of capacity fee revenue was compared to operating revenue resulting in a value that represents capacity fee revenue as a percentage of operating revenue. These values were obtained from publicly available financial reports on agency websites. A five-year average was calculated though some agencies only had a few years of data on their websites. In addition, not every agency itemizes capacity fee revenue in their financial reports, so calculations could only be performed for 10 out of the 24 agencies.

Calculation

$$Development\ Activity\ Score = 1 + 9 * \frac{(Pa - Pmin)}{(Pmax - Pmin)}$$

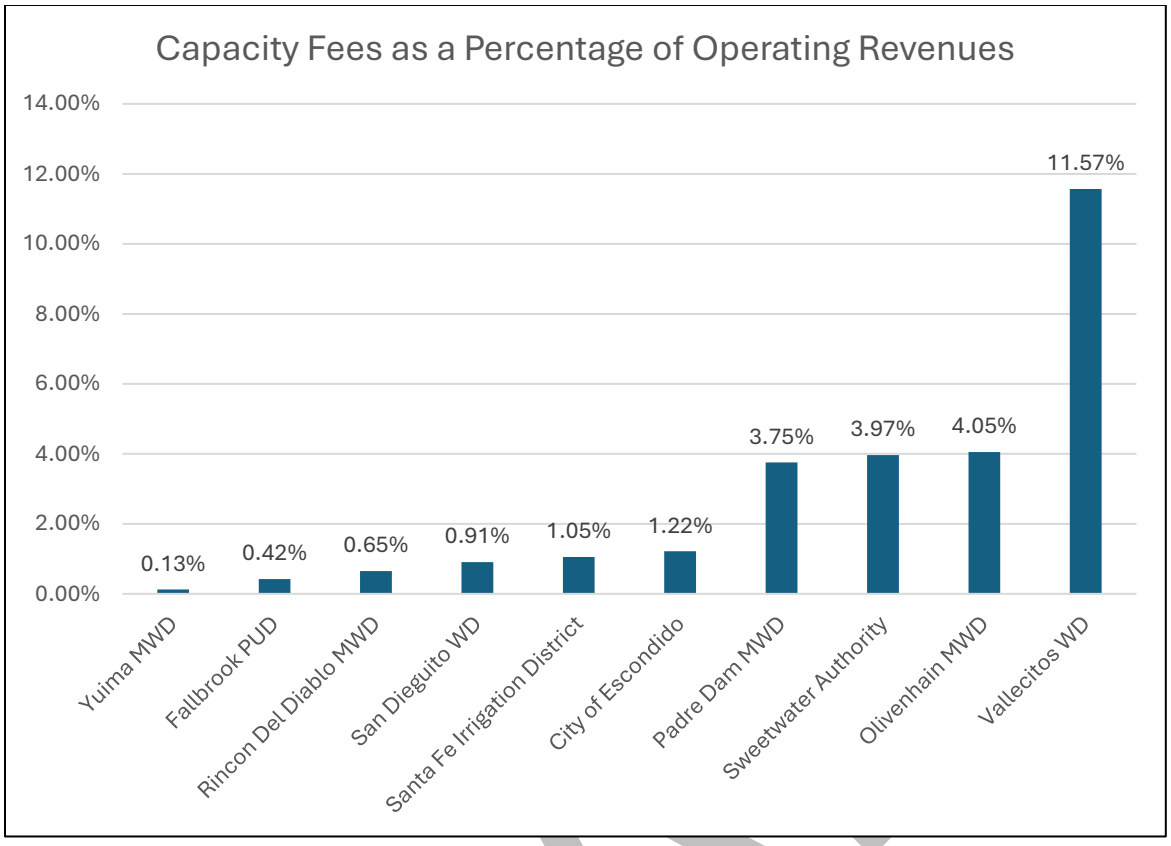
$$Where\ Pa = Agency\ capacity\ fee\ revenue\ as\ a\ percentage\ of\ operating\ revenue$$

$$Pmin = lowest\ percentage\ of\ all\ agencies\ evaluated$$

$$Pmax = highest\ percentage\ of\ all\ agencies\ evaluated$$

The chart below shows the relative percentage calculations for the 10 agencies where data was available on publicly accessible websites. This chart shows the wide range of development activity in San Diego County. High levels of development in the City of San Marcos results in Vallecitos WD receiving the highest level of capacity fee revenues while the rural Yuima MWD has almost no such revenue.

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Local Treatment

Imported water enters Southern California as raw, or untreated water. Before it can be delivered to homes it must receive treatment to remove pathogens and be suitable for potable use. Where that water is treated varies from agency to agency. Many of the older agencies, mostly in the south and east portions of the County, constructed treatment plants in the early part of the 20th century, with the City of San Diego's Otay plant dating back to 1914. Other agencies constructed treatment plants in the post war era.

For decades, a significant portion of water treatment occurred in Riverside County at the Skinner Treatment Plant operated by MWD. With multiple pipelines entering the County from the north, some lines were dedicated to treated water and the rest delivered raw water. Approximately 25 years ago, the total demand on SDCWA's treated water pipelines was reaching its maximum capacity. Consideration was given to the construction of a new pipeline (pipeline 6) to address the issue but the cost of a new pipeline was considered too high. Instead, a new round of treatment plant construction and expansion was undertaken by both SDCWA and member agencies.

Olivenhain MWD completed construction of the David C. McCollom plant in 2002 and a few years later SDCWA completed construction of the Twin Oaks Valley plant. Along with other projects in the County these plants eased the capacity problem in the pipelines but also increased the cost of treatment.

Both MWD's Skinner plant and SDCWA's Twin Oaks plant are large, and as treated water demands declined over the 2000's and 2010's due to local member agencies building their treatment plants, the capital costs of these wholesale water agency plants were spread across fewer and fewer acre feet of water. This situation, along with the overall decline in retail agency demands, increased the treatment cost charged to member agencies considerably.

Agencies who own and operate their own water treatment plants benefit by purchasing lower cost raw water and by having lower per acre foot treatment costs at their own plants. Most agency owned plants are smaller and operate closer to their design flow rates which makes them more efficient. The Twin Oaks plant currently runs at only about 25% which makes it particularly inefficient.

The scope of this study did not allow for a precise per acre foot calculation of water treatment costs agency by agency. However, the consensus of the working group was that agencies with their own treatment plants by and large produce treated water at a lower cost than those who are subject to the costs of plants run by MWD and SDCWA. For the purposes of this study, agencies were assigned a score that reflected whether they operated their own treatment plant or not.

Calculation

$$Treatment\ Score = 8\ (if\ agency\ owns\ a\ plant)$$
$$Treatment\ Score = 4\ (if\ an\ agency\ relies\ on\ SDCWA/MWD)$$

Low-Cost Local Supplies

While most of the water demand in San Diego County is satisfied using imported water, there are some agencies who have access to lower cost local supplies. Most of these agencies are in the southern and eastern portion of the county and benefit from the early development of dams and water systems dating back to the 19th century. Both the Sweetwater Dam and the Cuyamaca Dam were constructed in 1888. Others followed before World War II and were the main sources of water for San Diego County prior to the importation of water. A small amount of groundwater is available in the County and is mostly used by Lakeside Water District and the Sweetwater Authority.

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Several agencies enjoy the benefits of local surface or groundwater, which is free when it falls from the sky and the only cost is the management of the dams, wells, reservoirs, and associated facilities. These water supply sources cost only a fraction of the cost of imported water. Since the largest cost component for many agencies is the cost of imported water, agencies who have access to local supplies can pass on these benefits to their ratepayers.

Scoring for this category was based on estimates of the percentage of total water demands that come from low-cost local supplies for each agency. The Sweetwater Authority tops the list with approximately 70% of their demands satisfied by surface or groundwater supplies. Many agencies have no low-cost local supplies and are completely dependent on imported water.

Calculation

$$Low\ Cost\ Local\ Supply\ Score = 2.5\ (if\ no\ low\ cost\ local\ supply)$$
$$Low\ Cost\ Local\ Supply\ Score = 5 + (Pl * 5)$$
$$Where\ Pl = Percentage\ of\ Low\ Cost\ Local\ Supply$$

High-Cost Local Supply

Over the last 25 years there has been a rapid expansion in the development of alternative supplies which are primarily based on the reuse of wastewater. Until very recently, these reuse projects centered on non-potable uses for water such as irrigation. Distributed in separate "purple pipe" distribution systems, this reclaimed water allowed agencies to irrigate schools, parks, medians and other sites using a local supply which reduced the need for importing water. Many inland agencies have no access to other discharge methods, such as ocean outfalls, so the reuse of the water is the only option.

In 2015 SDCWA commenced operation of a new source of water, the Claude "Bud" Lewis Carlsbad Desalination Plant. While originally forecasted to provide water that would be competitive with imported water costs, these forecasts were inaccurate. Water costs from the desal plant are now about triple the cost of imported water. While the main impact of these costs has been to increase the cost of water from SDCWA, two member agencies, Carlsbad MWD, and Vallecitos MWD signed agreements for direct deliveries of this more expensive water.

Over the last several years there has been a new entrant to the water supply portfolio here in San Diego and across California – potable reuse. Several factors have contributed to the rise of this new water source. The cost to deploy dedicated "purple pipe" distribution systems for non-potable reclaimed water stymied the expansion of these systems as the

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cost of the water would exceed imported water. Revised regulations and treatment standards for potable reuse have brought certainty to the planning, financing, and project development processes. The capacity/capabilities of wastewater treatment plants and/or ocean outfall pipelines have made potable reuse financially viable when compared to the cost of upgrades.

While some of the costs of these potable reuse systems are charged to wastewater customers as part of the wastewater disposal component of those rates, the relative cost of potable reuse water is higher than imported water. There are agencies who present compelling arguments to the contrary, but these arguments generally use sophisticated mechanisms to shift costs in ways that don't receive unanimous agreement from others.

Local supply development of all types is good for the region. The extreme dependency of San Diego County on far away water sources is likely not sustainable given the projections for hydrological change in the upcoming decades. Colorado River supplies are under extreme duress and supplies from Northern California have their own issues related to changes in hydrology, an antiquated levee system, and environmental challenges. These potable reuse supplies are considered among the highest reliability sources and reuse a precious resource that often came from hundreds of miles away.

However, these benefits come at a cost, which is passed down through water bills to customers. Whether compelled to create the supplies due to regulatory constraints, such as is the case for San Diego Pure Water, or by a desire to have a more resilient supply portfolio, the outcome is the same.

Calculation

Note: This calculation is based on a maximum of 25% high cost local supply for an agency. As these supply rates increase over time this calculation will need to be adjusted.

$$High\ Cost\ Local\ Supply\ Score = 5 - 0.16 * P$$
$$Where\ P = High\ Cost\ Local\ Supply\ Percentage\ in\ whole\ numbers$$

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Water Rate Impact Charts

The main objective of this new method of analysis is not to compare the water rates of one agency against another. That sort of analysis fails to take into consideration the agency specific financial realities such as the subset presented above. This method of analysis is intended to help the Commission and general public understand *why* water rates are different from agency to agency.

As noted previously, no numerical values are presented in these charts. Instead, each of the key characteristic calculations are presented in a way that shows whether the impact of each characteristic will tend to increase rates, or lower rates. If a key characteristic is neutral on rates, the tick mark will be in the center of the range.

This draft report presents data from three of the agencies involved in the current round of North Coastal Municipal Service Reviews. These agencies have been actively involved with providing data to LAFCO and its consultants, and thus were chosen for this report. Additional data has been gathered for 19 other agencies but the data was not provided by the agencies, but drawn, or inferred, by LAFCO's consultant. Additional charts will be developed once feedback on this methodology is received and the subject agencies can provide data directly.

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Olivenhain Municipal Water District

Key Characteristics

Local Treatment – OMWD operates their own treatment plant

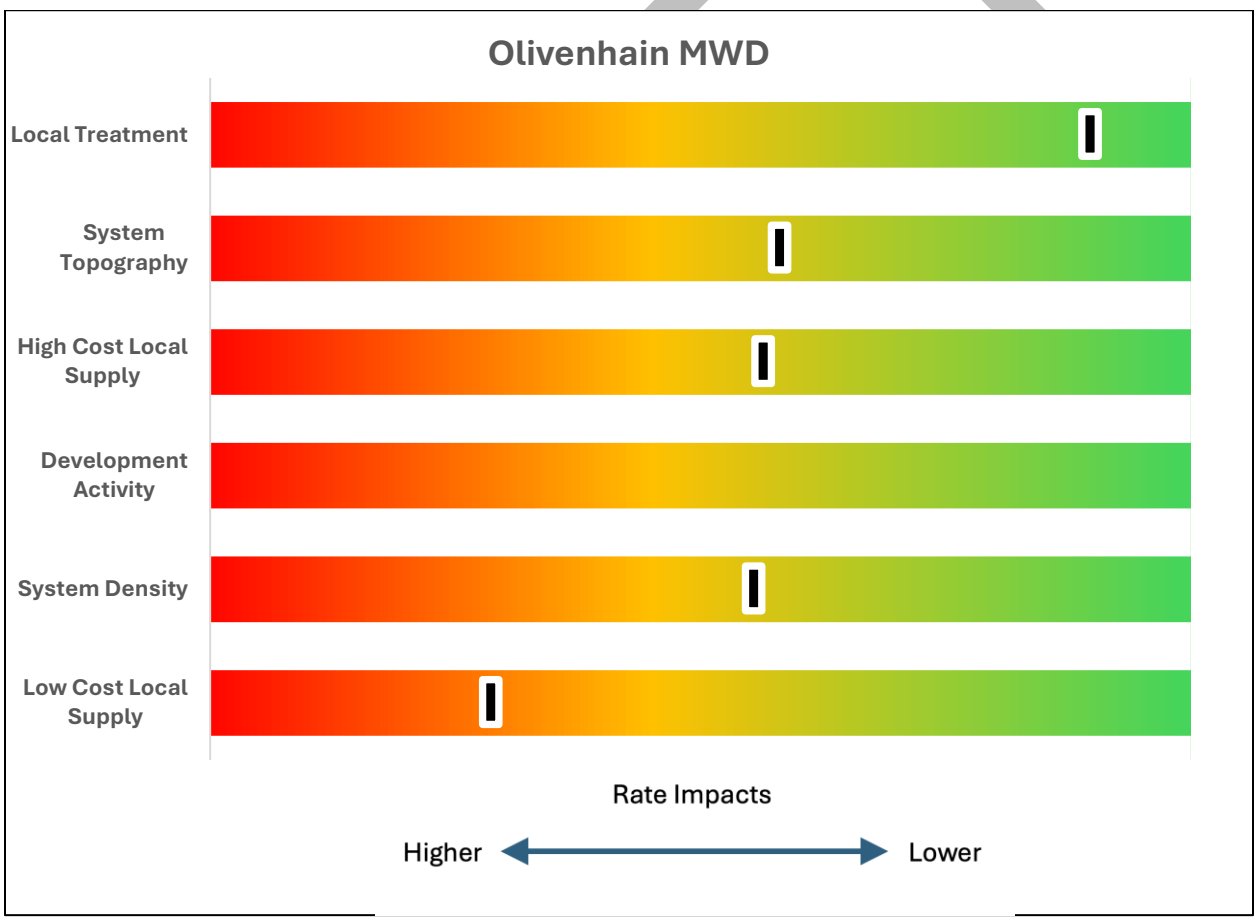
System Topography – While varied, OMWD's topography is not extreme

High-Cost Local Supply – OMWD has no high-cost local supply

Development Activity – OMWD has moderate development activity

System Density – OMWD's system density is average

Low-Cost Local Supply – OMWD has no access to low-cost local supplies



San Dieguito Water District

Key Characteristics

Local Treatment – SDWD is a part owner of the Badger Treatment plant with SFID

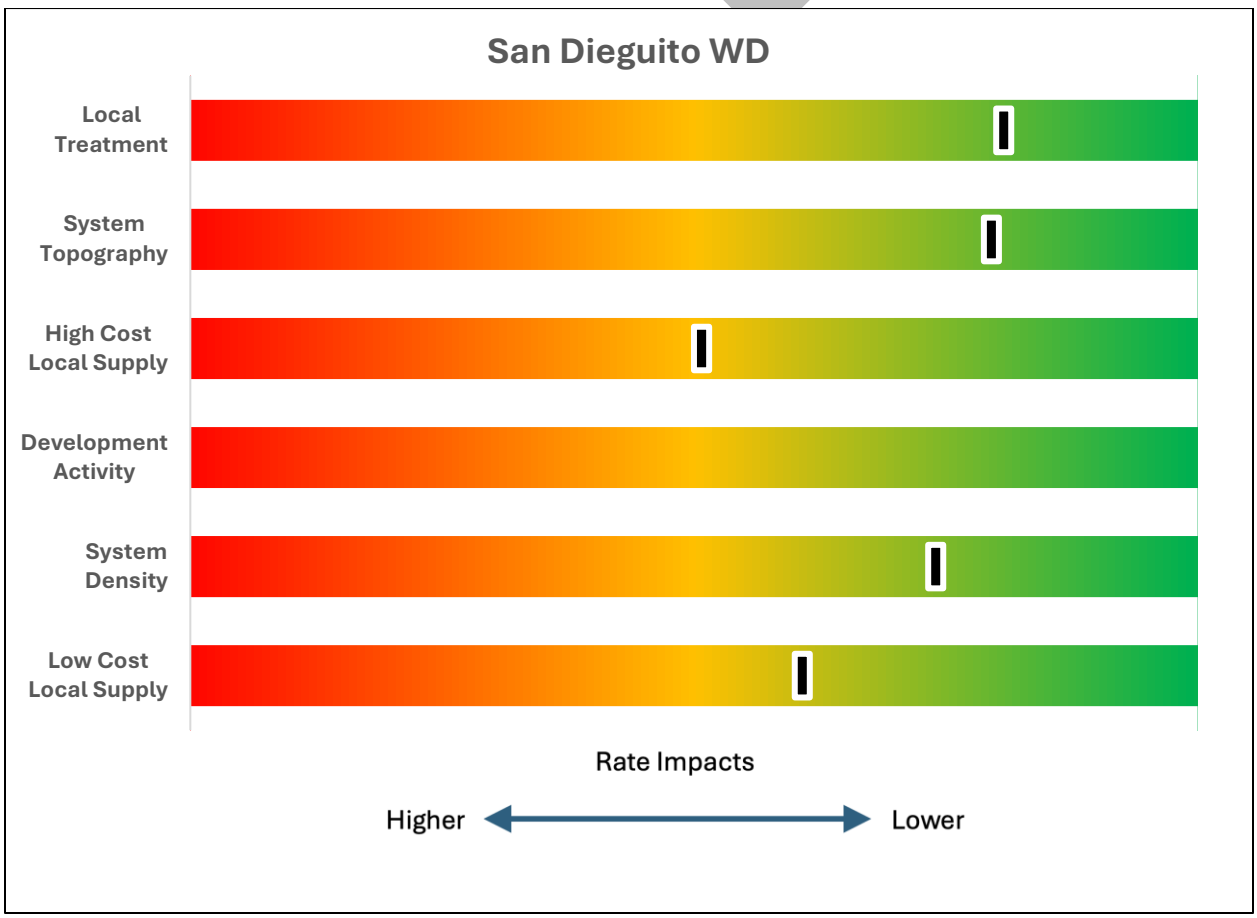
System Topography – SDWD has relatively small elevation changes in their system

High-Cost Local Supply – SDWD has no high cost local supply

Development Activity – SDWD has low levels of development activity

System Density – SDWD has higher than average system density

Low-Cost Local Supply – SDWD has access to low cost supplies, though the challenges at the Lake Hodges Dam has diminished this recently



Carlsbad MWD

Key Characteristics

Local Treatment – CMWD has some local treatment, but it is from the desal plant, which is at a higher cost

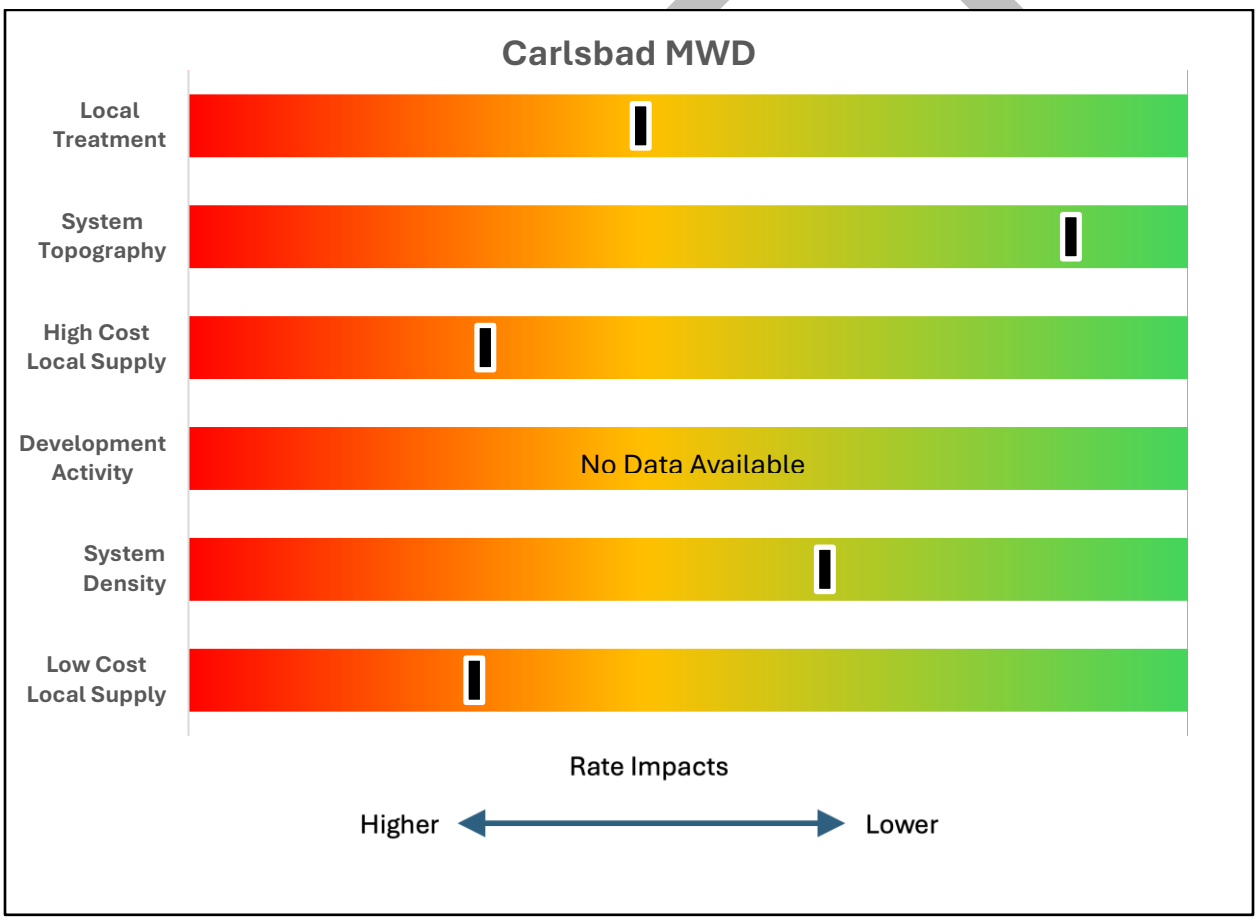
System Topography – CMWD has relatively small elevation changes in their system

High-Cost Local Supply – CMWD has high-cost water supplies from the desal plant

Development Activity – No Data Available but expected to be higher than average

System Density – CMWD's system density is just above average

Low-Cost Local Supply – CMWD has no low-cost local supply



Interpretation of Water Rate Impact Charts

The charts provided above don't prescribe what an agency's water rates should or should not be. They look at only a handful of myriad variables that go into rate setting. A chart

could show many indications that rate pressures are lower than other agencies, but any number of other variables could shift the actual rates in a different direction.

In this small subset of agencies, the data loosely correlates with the "traditional" method of rate comparisons provided above. Any comparison between the two should be conducted with the understanding of the limitations of both methods.

These charts represent a snapshot of some reasons why rates are what they are. If, during a Municipal Service Review process, LAFCO staff compares these charts to the "traditional" method of rate comparisons shown above and identifies some discrepancies, this does not mean the rates were improperly set. It can be an indicator that additional review may be required if an agency is an outlier in one or more categories.

Capital Spending Analysis

As noted in previous sections, the provision of water in municipal systems is heavily dependent on a wide variety of capital assets. The combined value of these assets in San Diego County is measured in many billions of dollars of pipelines, treatment plants, pump stations and other facilities. Additional billions have been invested in the statewide systems that bring imported water into the County.

Once any form of capital asset is constructed, whether it be a small service lateral to a home or a huge transmission main, the clock starts ticking towards the eventual need to replace that asset. Every asset will, at some point, degrade in performance absent a reinvestment of some sort to replace or rehabilitate that asset. Every water supplier must address these issues which is becoming an increasingly difficult problem to solve.

From a LAFCO perspective, the Municipal Service Review process evaluates the capability of each agency to provide water as a municipal service for a specific service area. These reviews are mainly retrospective to see how the agency has been performing during a certain review period. LAFCOs also have an obligation for prospective review to ensure that the agency is prepared to continue service into the foreseeable future.

The challenge that the working group addresses here is how can LAFCO determine whether an agency is well prepared financially to handle the need to repair or rehabilitate the capital assets that are essential to their assigned municipal service function? Is an agency spending an appropriate amount on repair, replacement, or rehabilitation of their assets? How is the agency dealing with the water rate impacts of CIP programs, which can amount to a significant percentage of overall expenses?

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The working group considered a number of options but after considering challenges – including data availability and accessibility of the metrics for non-accountants –two metrics were chosen and further detailed in the proceeding section. It should be noted the metrics presented here are imperfect, but can present a high-level view of how an agency is prioritizing capital spending overall.

One of the largest challenges is that the data was drawn from publicly available Annual Comprehensive Financial Reports (ACFR) that each agency is required to produce each year. While these reports are based on a standardized format, there are variations in the detailed accounting practices among agencies that can lead to a level of uncertainty in the information.

In addition, there are times when capital spending increases for single large projects such as a new treatment plant. Other times these large capital projects are not related to the backbone infrastructure but instead are for office buildings or other necessary assets that are not directly related to moving water. The scope of this project did not include a detailed review of the types of projects that each agency funded with the capital spending reported in their ACFRs.

Capital Spending Metrics

The working group settled on two primary capital spending metrics that tell slightly different stories. Unlike the individual agency metrics used above, these metrics are more similar to the "traditional" water rate comparison charts in that they include all agencies on a single chart. As noted above, these charts are not intended to indicate whether a level of capital spending is "good" or "bad", but to give LAFCO a general idea as to how the level of capital spending compares to similar agencies.

An agency who has higher values in either or both of these charts may still be spending well below the levels necessary to proactively repair or replace infrastructure. Conversely, an agency with lower values may have a "newer" system that does not require the higher level of spending – yet. These charts are a starting point and may guide LAFCO staff towards more detailed analysis during Municipal Service Reviews.

Capital Spending to Depreciation Expense Ratio

When an agency constructs a capital asset, it spends a certain amount of money on that asset. In accounting terms, that spending is deducted from a cash fund on the books and added to a fixed asset fund, which holds the value of all of the assets of the agency. The cash may be gone, but the asset still has value and that is reflected in the net position of the agency going forward.

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However, just as when you drive a new car off the dealership's lot, the value of the asset begins to decline immediately. The process of subtracting this lost value of the asset each year is known as depreciation. There are many methods of depreciation, but for simplicity's sake in this description we will consider straight line depreciation. When constructed, the accounting department will assign a useful lifespan for the asset, whether that be 50 years or 100 years. From year one on they will deduct 1/50th (or 1/100th) of the original value of the asset from the fixed asset fund. By year 50 (or 100) the "book value" of the asset will be zero. The amount of annual depreciation of fixed assets is reported in a line item of each agency's ACFR.

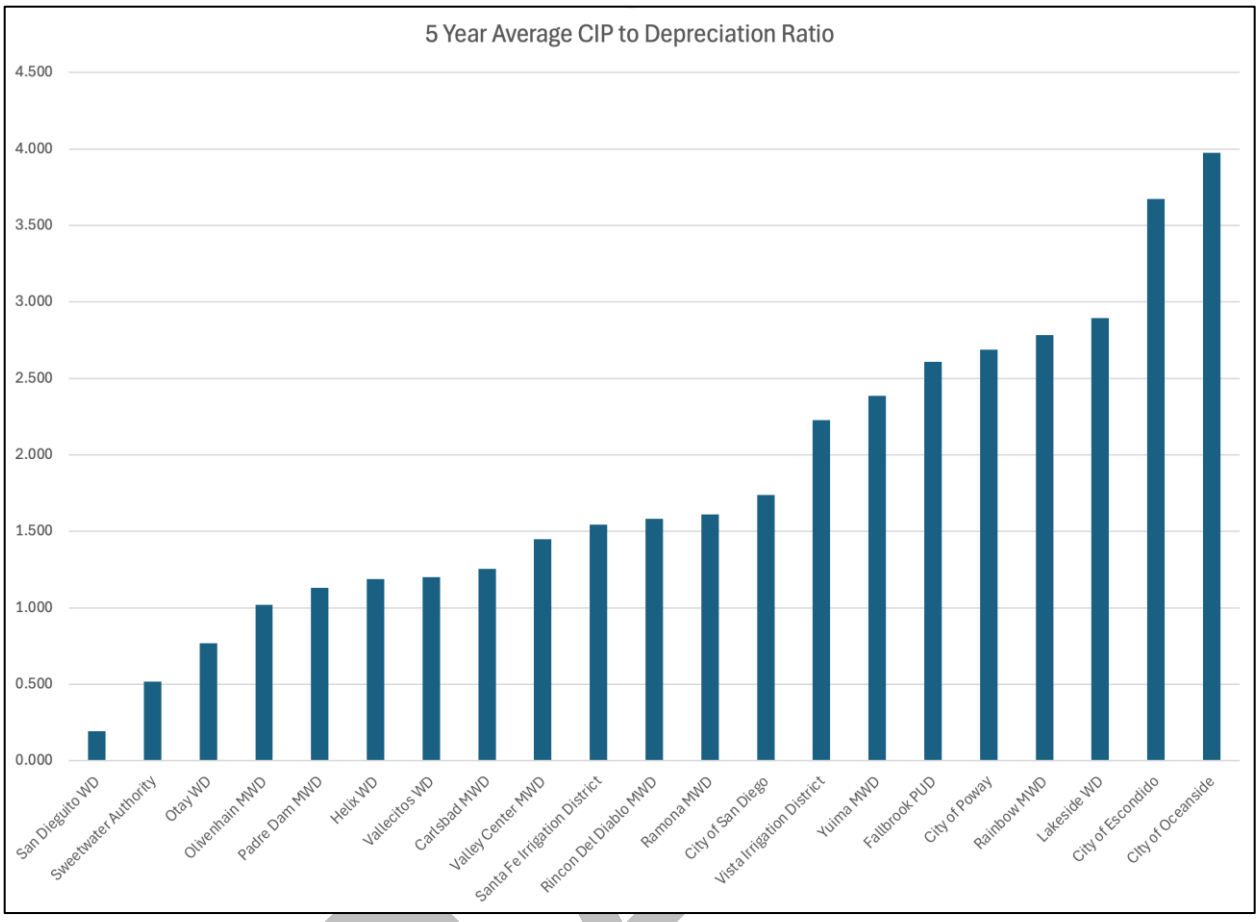
In the simplest of terms, depreciation can be an indicator of the magnitude of asset degradation in any fiscal year. Using this perspective, if an agency is spending the same amount of money that is being lost to asset degradation, they should be OK. In this simplistic view, the agency is replacing assets as fast as they degrade.

However, it is not that simple. One huge factor is inflation. A pipeline installed 50 years ago cost a small fraction of what the identical pipeline would cost to be installed today. 1/50th the cost of a mile of pipe installed in 1975 does not buy 1/50th of a mile of pipe today. For this reason, even capital spending at a level equal to annual depreciation may be well below what is required.

Another factor is that many agencies, especially ones whose infrastructure was installed long ago, have already depreciated many assets to zero book value. At that point, the annual depreciation expense declines significantly – but the need for replacement remains. If your agency has already depreciated a significant amount of your infrastructure your capital spending to depreciation ratio needs to be many times higher than 1:1.

In the chart below, the five-year average of capital spending to five-year average of depreciation expense ratio was calculated for the 22 member agencies of SDCWA plus Fallbrook PUD and Rainbow MWD. Using five-year averages helps to smooth out high or low spending years. However, in any five-year period some agencies may be saving up for a large future project or had just completed a large project just prior to the reporting period and are building reserves for the next cycle. This fact adds another level of uncertainty to the data.

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The chart above displays a wide range of CIP spending to depreciation expense ratios. From the City of Oceanside at a nearly 4:1 ratio to San Dieguito WD well below 0.25:1. All but three agencies exceed a 1:1 ratio and the median value is 1.58:1. The average value is 1.83:1, which is not too far off the median.

We can't just interpret this chart and say, "Oceanside is the best!". While this has not been confirmed with City staff, we are aware of significant capital spending on their Pure Water Oceanside project, which likely skews these numbers. Escondido has also been building an advanced water treatment plant, which has likely increased their ratio.

What LAFCO can do is monitor these values over time and when the time comes for a Municipal Service Review they can use these charts to identify areas where additional study is required.

CIP Spending as a Percentage of Operating Expenses

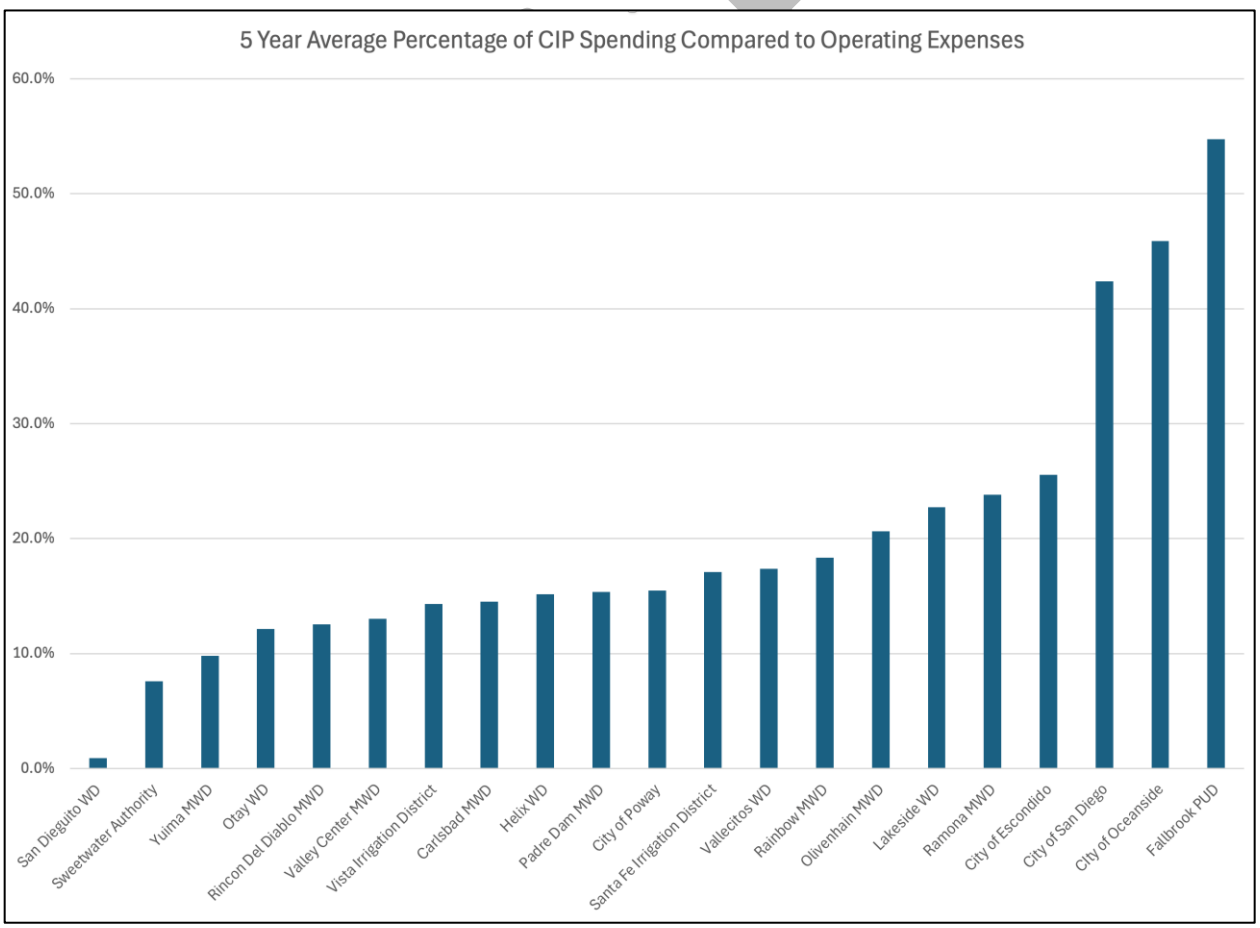
Another metric that can provide some insight in tandem with the CIP to Depreciation ratio is a comparison of how CIP spending compares to operating expense. Operating expenses

represent all of the spending required to perform the municipal service of potable water for the agency. It includes purchasing, treating, and pumping water, along with labor, power, parts, administration, and everything else that goes into a functioning water agency.

As a general rule, larger agencies have larger operating expenses. This often correlates with larger distribution systems and thus larger needs for pipeline repair and replacement. However, many variables, including some of the key characteristics described above, contribute to operating expenses, so this general rule is certainly not a hard and fast rule.

Perhaps the most useful way to look at a comparison of CIP spending to operating expenses is how much an agency has committed itself to funding CIP programs. Except in high growth areas, most of the funding for CIP spending comes from water rates. Building up reserves for CIP spending requires a commitment on the part of the governing body to make the hard decisions required to set rates in a manner that funds these programs.

The chart below uses five-year average values to compare the percentage of CIP spending compared to operating expenses.



This chart shows an even wider range of values than the CIP to Depreciation ratio. In this analysis, Fallbrook PUD has the highest percentage at nearly 55% with the Cities of Oceanside and San Diego not far behind. Fallbrook recently completed an advanced water treatment facility and both San Diego and Oceanside are engaged in a similar effort. This explanation is an educated guess as the scope of this study did not allow for detailed reviews of actual spending.

At the lower end San Dieguito WD is spent less than 1% of their operating expenses on CIP programs during the review period. The average value is 20%, but the median is only 15.5%, indicating that a handful of larger agencies have distorted the average somewhat. It is entirely plausible that future calculations of these percentages will shift the order considerably as some agencies take on large projects and others complete them.

Taken together, if an agency is consistently on the lower end of both charts this should raise a flag for LAFCO review. San Dieguito WD is currently undergoing a Municipal Service Review and concerns about capital spending will be included in that report. Please note that subsequent to the MSR report period (2019-2023) San Dieguito WD has taken steps to increase capital spending.

Final Comments and Recommendations

With water bills skyrocketing with no end in sight, the subject of water rates and what to do about them has become a hot topic in many areas of California. This is especially true in San Diego County, where water rates are among the highest in the nation. What used to be an annoying monthly bill has become, for many, a bill that requires hard choices among working families.

The objective of this document was to outline why water rates vary from agency to agency so that the Commission and water agency ratepayers can understand the real-world factors that influence the cost in their communities. Unfortunately, there is no silver bullet that can magically reduce water rates.

In fact, as the data related to CIP spending indicates, there is wide variation in the way assets are managed. The challenge of rising rates frequently compels governing bodies to cut back on capital spending in order to keep rates as low as possible. While understandable, from a LAFCO perspective this may jeopardize the municipal service functions these agencies are required to fulfill in the future.

Taken as a whole, the information in this report indicates that in many, many cases water rates are too low to properly fund the CIP programs required to avoid service disruptions. While this is certainly an unwelcome conclusion, the fact is that few, if any, agencies fund

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their CIP programs at a level that is anywhere near being able to replace their systems at a frequency that is commensurate with their expected lifespans. Most agencies will have replacement frequency measured in multiple centuries over the expected lifespans.

Yes, these systems are getting by now, but for how long? Will it be 10 years, 20 years, or more than 50 years before pipelines start failing faster than they can be replaced? Many agencies have no idea and are hoping for the best. Hope is not a strategy, to borrow a frequently used quote.

Given the financial challenges of funding CIP programs and its impact on water rates, what are the best options. This report offers two suggestions.

Suggestion 1: Advanced Asset Management Programs should be used

Many agencies have been developing Capital Master Plans and other CIP spending plans for decades. During the post war growth period, a good deal of this spending went to building out capacity in the water system to manage the new homes and businesses that were part of the growth of San Diego County. Some of those processes are still in place.

However, in an era where systems are mostly built out and capital spending will be shifting towards repair, replacement, and rehabilitation of assets, a new methodology is required. Several agencies in San Diego County have already adopted these processes and it can help focus the limited funds available in the most cost-effective way to ensure reliable provision of service.

There are several key components to advance asset management systems:

- A comprehensive GIS based asset registry is required. This database should include all assets, down to the smallest level of detail possible. The data should be routinely updated and must be rigorously checked for accuracy.
- A work management system that tracks asset failures by specific assets should be implemented. This system records asset failures over time and includes specific data on the reasons for the asset failure. For example, fire hydrants that leak after being run over by a car reflects an isolated incident rather than a systemic problem, but if they leak because their bolts have rusted out that may signal a systemic maintenance issue.
- Continuous assessments of asset condition should be integrated into everyday work practices. Every time an asset is looked at whether it be when a pipeline is exposed for a new connection or in response to a leak, agency staff should make specific notes on the asset condition. This is not a one-time thing; assets that looked fine five years ago could be ready to fail today. Colleting this data over time is important.

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- Using the data collected from the systems above, each agency should use failure history and condition assessments to rank each asset in the asset registry by its relative probability of future failure. While age is a factor in asset failure, it is frequently not the deciding factor. Soil corrosivity, a bad contractor who installed a faulty line, and many other factors cause some pipelines to fail well before their expected lifetimes. Using this type of system, agencies can proactively predict which assets are most likely to fail and direct scarce CIP funds toward preventing those failures.
- Agencies should also factor in the consequence of failure. The failure of a big transmission main could put thousands of customers out of service, while a small lateral in a cul de sac may only affect a handful. While the loss of service to any customer is a problem, avoiding larger regional outages must take priority. When combined with a probability of failure evaluation this becomes a very powerful tool to avoid the worst outcomes.

Suggestion 2: The way capital assets are funded should be reevaluated by the State Legislature

As noted above, retail water agencies are hamstrung by multiple forces. They bear the burden of spending decisions by wholesale agencies, and in most of San Diego County that means two wholesale agencies. Decisions are made that are far removed from the people who pay these bills.

In addition, voter approved initiatives, while well intended, have created a situation where water agencies have almost no flexibility on how to apportion costs. This has created a system of rates and charges that are generally regressive. Lower income families pay a much higher percentage of their available spending power on water bills than do higher income families.

Under the current legal landscape, agencies have limited options to fund asset management. As a result, it is up to the State Legislature to take action to allow water agencies to recover some of these costs through a dedicated line item on annual property assessments. This is not a tax, but a fee. Wastewater agencies for decades have been given this option and many in San Diego County recover all their costs as a fee collected by the San Diego County Assessor.

Will this reduce the total cost paid by the public for water? No – but it will distribute those costs in a more equitable manner. More importantly, if also applied to the large regional wholesalers, those agencies will collect their money directly, not through the cash registers of small local agencies. Multiple billions of dollars of costs are sent by wholesalers down

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to retail agencies to include in their water bills each year in Southern California. If these agencies were to collect their fees directly it would have two significant benefits.

First, with the burden of wholesale agencies costs lifted from their budgets, local agency rates would drop immediately. Agencies would not have to cut planned CIP projects because of an unexpected increase from their wholesale agencies. Lower income customers who are not landowners would benefit most, though some landlords may use this change to justify rent increases.

Secondly, the big wholesale agencies would become directly accountable to the public, often for the first time. Where these big wholesale agencies now operate in mostly empty board rooms, concerned customers who see proposed increases in this new fee system will engage directly, rather than taking it out on the local body that had no option but to pass through those costs. With any luck, this may provide a new focus on budgetary constraints at these large wholesale agencies.

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AGENDA REPORT
Business | Discussion

January 16, 2026

TO: Special Districts Advisory Committee

FROM: Priscilla Mumpower, Assistant Executive Officer
Joelle Burila, Local Government Analyst I

SUBJECT: **Workplan Update on Legislative Proposal | Implementing UC Report Recommendations to Expand LAFCOs' Effectiveness**

SUMMARY

The Special Districts Advisory Committee ("Committee") will receive an update on a San Diego LAFCO workplan project focused on developing legislation consistent with recommendations from a recent University of California (Berkeley) report. The report examined opportunities and challenges for providing safe drinking water to residents in need, including LAFCO's role in matching public services with community needs. Staff has been coordinating with the report's authors and stakeholders, including other LAFCOs, to develop statutory amendments aligned with the report's recommendations. Consensus has been reached on draft bill language, and current efforts focus on identifying a legislative author and engaging stakeholder organizations for potential sponsorship. This item is presented for Committee discussion and feedback on the draft language.

BACKGROUND

San Diego LAFCO adopted its current fiscal year workplan at a public hearing in May 2025. The workplan identifies 30 special projects organized into statutory and administrative categories, each with assigned priority levels established by the Commission. One of these projects

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directs staff to explore future legislative changes intended to enhance LAFCO effectiveness, consistent with the findings of a January 2024 UC Berkley report.

University of California Berkley Report | LAFCo and Water System Consolidation

In January 2024, UC Berkeley's Department of Agriculture and Natural Resources published a report by Professor Kristin Dobbin and PhD Candidate Justin McBride examining how LAFCOs and State regulators interact to improve drinking water system reliability and related public policy topics. The Committee received a presentation on the report and its recommendations on April 18, 2024[1]

DISCUSSION

The Committee will receive an update on ongoing work to advance recommendations from the January 2024 UC Berkeley report related to strengthening LAFCO authority over public water systems, particularly for disadvantaged communities. San Diego LAFCO has been collaborating with several peer agencies – including Orange, Sacramento, Santa Cruz LAFCOs – alongside Professor Dobbin and the Community Water Center to develop a legislative proposal. Consensus has been reached on draft bill language, and current efforts focus on identifying a legislative author and engaging the Alliance of LAFCOs and CALAFCO regarding possible co-sponsorship. Three main topics underlie the draft and summarized below.

- Expand LAFCOs' initiating powers to include reorganizations (such as annexations) and outside service extensions when warranted to address documented public health or safety threats related to water or wastewater service.

- Amend the municipal service review statute to require LAFCOs to perform and document community outreach before taking final actions and require subject agencies to respond to municipal service reviews after their own agenda noticing.

- Amend the definition of mutual water companies to include mobile home parks that operate community water systems, thereby requiring these entities to file service information with LAFCOs.

Additional details are attached.

ANALYSIS

The draft legislative proposal advances LAFCOs' statutory role in aligning municipal service delivery with community needs, consistent with Commission direction to pursue UC Berkeley report recommendations as part of the adopted workplan. The proposed amendments provide measured authority that concurrently motivates local agencies to address public water and wastewater service needs proactively while establishing clear pathways for LAFCO

[1] Link: Special Districts Advisory Committee April 18, 2025 Report on UC Berkeley Legislative Effort

intervention when necessary. Towards this latter end, providing explicit authority for LAFCOs to initiate annexations or out-of-agency services in response to documented water or wastewater public health threats offers a more direct path for resolving urgent service gaps. The proposal also strengthens the municipal service review framework by requiring formal agency responses and documented public engagement, addressing a Commission priority to increase municipal service reviews' transparency and community involvement. Finally, clarifying mobile home parks operating community water systems qualify as mutual water companies improves LAFCOs' access to information necessary for effective oversight.

Committee discussion and feedback will be incorporated as appropriate in refining the draft legislative proposal and seeking an author and sponsor.

RECOMMENDATION

This item is presented to the Committee for discussion and feedback.

ALTERNATIVES FOR ACTION

None.

PROCEDURES

This item has been placed on the Committee's agenda for discussion as part of the business calendar. The following procedures are recommended in the consideration of this item:

1) Receive verbal presentation from staff and any comments from the audience.
2) Discuss item and provide feedback as requested.

Respectfully,



Priscilla Mumpower
Assistant Executive Officer

Attachments:
1. Memo Re: Legislative Proposals
2. Proposed Draft Bill Language

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Empowering Local Action on Consolidation: Strengthening Water and Wastewater Services through LAFCO Leadership

Background

State policymakers and regulators have prioritized water system consolidation as an important tool for addressing chronic water access challenges, particularly among small water systems. Through these efforts, California has successfully consolidated over 250 water systems, with many more projects currently underway. While California promotes consolidation, the essential local-level implementation of these projects depends on county LAFCOs. These commissions play a critical role in reviewing and approving all projects that alter local government boundaries (which most water system consolidations do, see Dobbin et al. 2021). Yet despite shared goals for advancing efficient and equitable service provision, there has been little coordination between state and local regulators on consolidation as a critical human right to water solution. These proposals are being advanced by LAFCO and Environmental Justice stakeholders to help align state and local roles to collaboratively advance community-driven water system consolidations.

Our Proposals

1. Empower LAFCOs to Initiate Jurisdictional Changes or Extraterritorial Services Under Certain Conditions

Challenge: For services to be extended from a local government service provider to a surrounding settlement, annexation is often required. Alternatively, an extraterritorial service agreement can be pursued. LAFCOs currently have the ability, and related authority, to initiate dissolutions, mergers, establish subsidiary districts, form new districts, and dissolve districts under certain circumstances and when informed by a report called a Municipal Service Review (MSR). LAFCO also approves all annexation and extraterritorial service agreement applications. However, unlike the above-named actions, they do not have the authority to initiate annexation or exterritorial service. Allowing LAFCOs to initiate is a crucial tool for advancing consolidations that lack a capable applicant, often due to lack of resources.

Solution: Amend California Government Code 56375(a) and its enumeration of LAFCO initiating powers to include jurisdictional changes and extraterritorial service agreements necessary to provide timely water or wastewater services consistent with community needs and documented public health or safety concerns while including conditional approval authority by amending Government Code 56133.

Use case example: Santa Cruz LAFCO developed an MSR that analyzed all water districts and private water systems in the county. Their findings suggested that many of the water districts should consider annexing areas within their sphere boundaries. While some water districts were interested in doing so, they lacked the time or staffing to initiate the process. If LAFCO had the

power to initiate annexation, they would be able to make the initial filings to pursue these consolidations on the behalf of the districts and underserved residents.

2. **Amplify the Role of Municipal Service Reports (MSRs) in Communicating Community Needs**

Challenge: MSRs are the public service report-cards for California municipal agencies providing basic services, including those who serve disadvantaged unincorporated communities. These reports are often the *only place* where the efficiency, equity and sustainability of resident services are evaluated. LAFCOs invest significant time and resources into producing these reports, and recommendations from an MSR should play a vital role in local planning. However, because there are no required hearings, these reports are often shelved and left unseen by affected agencies and county leaders.

Solution: Amend California Government Code 56430 and its provisions on preparing municipal service reviews to require LAFCOs to take up these studies at noticed hearings as well as require the affected agencies to formally receive the studies at their own noticed hearing and provide confirmation in doing so back to LAFCOs.

3. **Increase Awareness of Service Needs for Mutual Water Companies and Mobile Home Parks**

Challenge: Mobile Home Parks (MHPs) and Mutual Water Companies (MWCs) are common drinking water providers that serve many California residents. These systems also disproportionately struggle to provide safe, sustainable drinking water, even when compared to other small systems (see Pierce and Gonzalez, 2017; Dobbin and Fencl, 2021). While both LAFCOs and the California Public Utilities Commission oversee and approve service boundary changes for water systems within their jurisdictions, MHPs and MWCs are not overseen by either. This lack of oversight results in insufficient data collection and limited opportunities for public discussion, severely hindering consolidation planning for these systems. While LAFCOs do not regulate these systems, their existence as service providers within the vicinity of LAFCO reviewed cities and special districts merits attention as part of the water services review process. Including MWCs and MHPs in MSRs would make these reviews more comprehensive. Doing so would also align MSRs to support standing county drought task forces, now mandatory under SB 552.

Solution: Amend Government Code Section 56430 to add a requirement for MSRs to identify MHP and MWC service providers nearby reviewed local agencies service providers and amend the Health and Safety Code to allow LAFCOs to request information from Mobile Home Parks in the same way as Mutual Water Companies.

Proposed Draft
**********Unofficial Copy**********

An act to amend Sections 56375, 56133 and 56430 of the Government Code, relating to local government.

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS

SECTION 1. Section 56375 of the Government Code is amended to read:

56375. The commission shall have all of the following powers and duties subject to any limitations upon its jurisdiction set forth in this part:

(a) (1) To review and approve with or without amendment, wholly, partially, or conditionally, or disapprove proposals for changes of organization or reorganization, consistent with written policies, procedures, and guidelines adopted by the commission.

(2) The commission may initiate proposals by resolution of application for any of the following:

(A) The consolidation of a district, as defined in Section 56036.

(B) The dissolution of a district.

(C) A merger.

(D) The establishment of a subsidiary district.

(E) The formation of a new district or districts.

(F) A reorganization that includes any of the changes specified in subparagraph (A), (B), (C), (D), or (E).

(G) The reorganization of territory to a city or district or exterritorial services described in paragraph (3).

(~~G~~H) The dissolution of an inactive district pursuant to Section 56879.

(~~H~~I) The dissolution of a district pursuant to Section 56375.1.

(3) A commission may initiate a proposal or request described in paragraph (2)(F) only if that change organization, reorganization, or exterritorial service directly facilitates the provision of water or wastewater in response to a documented public health and safety threat to the community, as determined by the commission.

(A) In determining the applicability of a documented public health and safety threat, the commission shall prioritize information provided by any of the following:

(i) The State Water Resources Control Board including related to potential water system consolidations under Health and Safety Code Section 116682.

(ii) Regional water Quality Control Board

(iii) The applicable county department of public health

(iv) The applicable Local Primacy Agency

(B) Prior to taking action, the commission shall host at least one meeting in a place as close as feasible to the affected community and consider the level of support for the reorganization among residents of the affected community.

(C) Based on the documented public health and safety threat to the community the commission may petition the State Water Resources Control Board to consider ordering consolidation under Section 116682 of the Health and Safety Code.

(~~3~~4) A commission may initiate a proposal described in paragraph (2) only if that change of organization or reorganization is consistent with a recommendation or conclusion of a study prepared pursuant to Section 56378, 56425, or 56430, and the commission makes the determinations specified in subdivision (b) of Section 56881.

(4~~5~~) A commission shall not disapprove an annexation to a city, initiated by resolution, of contiguous territory that the commission finds is any of the following:

(A) Surrounded or substantially surrounded by the city to which the annexation is proposed or by that city and a county boundary or the Pacific Ocean if the territory to be annexed is substantially developed or developing, is not prime agricultural land as defined in Section 56064, is designated for urban growth by the general plan of the annexing city, and is not within the sphere of influence of another city.

(B) Located within an urban service area that has been delineated and adopted by a commission, which is not prime agricultural land, as defined by Section 56064, and is designated for urban growth by the general plan of the annexing city.

(C) An annexation or reorganization of unincorporated islands meeting the requirements of Section 56375.3.

(~~5~~6) As a condition to the annexation of an area that is surrounded, or substantially surrounded, by the city to which the annexation is proposed, the commission may require, where consistent with the purposes of this division, that the annexation include the entire island of surrounded, or substantially surrounded, territory.

(~~6~~7) A commission shall not impose any conditions that would directly regulate land use density or intensity, property development, or subdivision requirements.

(~~7~~8) The decision of the commission with regard to a proposal to annex territory to a city shall be based upon the general plan and prezoning of the city. When the development purposes are not made known to the annexing city, the annexation shall be reviewed on the basis of the adopted plans and policies of the annexing city or county. A commission shall require, as a condition to annexation, that a city prezone the territory to be annexed or present evidence satisfactory to the commission that the existing development entitlements on the territory are vested or are already at build-out, and are consistent with the city's general plan. However, the commission shall not specify how, or in what manner, the territory shall be prezoned.

(~~8~~9) (A) Except for those changes of organization or reorganization authorized under Section 56375.3, and except as provided by subparagraph (B), a commission shall not approve an annexation to a city of any territory greater than 10 acres, or smaller as determined by commission policy, where there exists a disadvantaged unincorporated community that is contiguous to the area of proposed annexation, unless an application to annex the disadvantaged unincorporated community to the subject city has been filed with the executive officer.

(B) An application to annex a contiguous disadvantaged unincorporated community shall not be required if either of the following apply:

(i) A prior application for annexation of the same disadvantaged unincorporated community has been made in the preceding five years.

(ii) The commission finds, based upon written evidence, that a majority of the registered voters within the affected territory are opposed to annexation.

(C) This paragraph shall also apply to the annexation of two or more contiguous areas that take place within five years of each other and that are individually less than 10 acres but cumulatively more than 10 acres.

(b) With regard to a proposal for annexation or detachment of territory to, or from, a city or district or with regard to a proposal for reorganization that includes annexation or detachment, to determine whether territory proposed for annexation or detachment, as described in its resolution approving the annexation, detachment, or reorganization, is inhabited or uninhabited.

(c) With regard to a proposal for consolidation of two or more cities or districts, to determine which city or district shall be the consolidated successor city or district.

(d) To approve the annexation of unincorporated, noncontiguous territory, subject to the limitations of Section 56742, located in the same county as that in which the city is located, and that is owned by a city and used for municipal purposes and to authorize the annexation of the territory without notice and hearing.

(e) To approve the annexation of unincorporated territory consistent with the planned and probable use of the property based upon the review of general plan and prezoning designations. No subsequent change may be made to the general plan for the annexed territory or zoning that is not in conformance to the prezoning designations for a period of two years after the completion

of the annexation, unless the legislative body for the city makes a finding at a public hearing with written notice provided no less than 21 days to the commission that a substantial change has occurred in circumstances that necessitate a departure from the prezoning in the application to the commission.

(f) With respect to the incorporation of a new city or the formation of a new special district, to determine the number of registered voters residing within the proposed city or special district or, for a landowner-voter special district, the number of owners of land and the assessed value of their land within the territory proposed to be included in the new special district. The number of registered voters shall be calculated as of the time of the last report of voter registration by the county elections official to the Secretary of State prior to the date the first signature was affixed to the petition. The executive officer shall notify the petitioners of the number of registered voters resulting from this calculation. The assessed value of the land within the territory proposed to be included in a new landowner-voter special district shall be calculated as shown on the last equalized assessment roll.

(g) To adopt written procedures for the evaluation of proposals, including written definitions consistent with existing state law. The commission may adopt standards for any of the factors enumerated in Section 56668. Any standards adopted by the commission shall be written.

(h) To adopt standards and procedures for the evaluation of service plans submitted pursuant to Section 56653 and the initiation of a change of organization or reorganization pursuant to subdivision (a).

(i) To make and enforce regulations for the orderly and fair conduct of hearings by the commission.

(j) To incur usual and necessary expenses for the accomplishment of its functions.

(k) To appoint and assign staff personnel and to employ or contract for professional or consulting services to carry out and effect the functions of the commission.

(l) To review the boundaries of the territory involved in any proposal with respect to the definiteness and certainty of those boundaries, the nonconformance of proposed boundaries with lines of assessment or ownership, and other similar matters affecting the proposed boundaries.

(m) To waive the restrictions of Section 56744 if it finds that the application of the restrictions would be detrimental to the orderly development of the community and that the area that would be enclosed by the annexation or incorporation is so located that it cannot reasonably be annexed to another city or incorporated as a new city.

(n) To waive the application of Section 22613 of the Streets and Highways Code if it finds the application would deprive an area of a service needed to ensure the health, safety, or welfare of the residents of the area and if it finds that the waiver would not affect the ability of a city to provide any service. However, within 60 days of the inclusion of the territory within the city, the legislative body may adopt a resolution nullifying the waiver.

(o) If the proposal includes the incorporation of a city, as defined in Section 56043, or the formation of a district, as defined in Section 2215 of the Revenue and Taxation Code, the commission shall determine the property tax revenue to be exchanged by the affected local agencies pursuant to Section 56810. If the proposal includes the disincorporation of a city, as defined in Section 56034, the commission shall determine the property tax revenue to be exchanged by the affected local agencies pursuant to Section 56813.

(p) To authorize a city or district to provide new or extended services outside its jurisdictional boundaries pursuant to Section 56133.

(q) To enter into an agreement with the commission for an adjoining county for the purpose of determining procedures for the consideration of proposals that may affect the adjoining county or where the jurisdiction of an affected agency crosses the boundary of the adjoining county.

(r) To approve with or without amendment, wholly, partially, or conditionally, or disapprove pursuant to this section the annexation of territory served by a mutual water company formed pursuant to Part 7 (commencing with Section 14300) of Division 3 of Title 1 of the Corporations Code that operates a public water system to a city or special district. Any annexation approved in accordance with this subdivision shall be subject to the state and federal constitutional prohibitions against the taking of private property without the payment of just compensation. This subdivision shall not impair the authority of a public agency or public utility to exercise eminent domain authority.

SECTION 2. Section 56133 of the Government Code is amended to read:

(a) A city or district may provide new or extended services by contract or agreement outside its jurisdictional boundary only if it first requests and receives written approval from the commission of the county in which the affected territory is located.

(b) The commission may initiate proceedings for a city or district to provide new or extended services by contract or agreement outside its jurisdictional boundary under the circumstances described in Section 56375(a)(3).

(~~b~~c) The commission may authorize a city or district to provide new or extended services outside its jurisdictional boundary but within its sphere of influence in anticipation of a later change of organization.

(~~c~~d) The commission may authorize a city or district to provide new or extended services outside its jurisdictional boundary and outside its sphere of influence to respond to an existing or impending threat to the health or safety of the public or the residents of the affected territory and determinations of available and adequate service to the affected territory, if both of the following requirements are met:

(1) The entity applying for approval has provided the commission with documentation of a threat to the health and safety of the public or the affected residents.

(2) The commission has notified any alternate service provider, including any water corporation as defined in Section 241 of the Public Utilities Code, that has filed a map and a statement of its service capabilities with the commission.

(~~d~~e) The executive officer, within 30 days of receipt of a request for approval by a city or district to extend services outside its jurisdictional boundary, shall determine whether the request is complete and acceptable for filing or whether the request is incomplete. If a request is determined not to be complete, the executive officer shall immediately transmit that determination to the requester, specifying those parts of the request that are incomplete and the manner in which they can be made complete. When the request is deemed complete, the executive officer shall place the request on the agenda of the next commission meeting for which adequate notice can be given but not more than 90 days from the date that the request is deemed complete, unless the commission has delegated approval of requests made pursuant to this section to the executive officer. The commission or executive officer shall approve, disapprove, or approve with conditions the extended services. If the new or extended services are disapproved or approved with conditions, the applicant may request reconsideration, citing the reasons for reconsideration.

(~~e~~f) This section does not apply to any of the following:

(1) Two or more public agencies where the public service to be provided is an alternative to, or substitute for, public services already being provided by an existing public service provider and where the level of service to be provided is consistent with the level of service contemplated by

the existing service provider.

(2) The transfer of nonpotable or nontreated water.

(3) The provision of surplus water to agricultural lands and facilities, including, but not limited to, incidental residential structures, for projects that serve conservation purposes or that directly support agricultural industries. However, prior to extending surplus water service to any project that will support or induce development, the city or district shall first request and receive written approval from the commission in the affected county.

(4) An extended service that a city or district was providing on or before January 1, 2001.

(5) A local publicly owned electric utility, as defined by Section 224.3 of the Public Utilities Code, providing electric services that do not involve the acquisition, construction, or installation of electric distribution facilities by the local publicly owned electric utility, outside of the utility's jurisdictional boundary.

(6) A fire protection contract, as defined in subdivision (a) of Section 56134.

SECTION 3. Section 56430 of the Government Code is amended to read:

(a) In order to prepare and to update spheres of influence in accordance with Section 56425, the commission shall conduct a service review of the municipal services provided in the county or other appropriate area designated by the commission. The commission shall include in the area designated for service review the county, the region, the subregion, or any other geographic area as is appropriate for an analysis of the service or services to be reviewed, and shall prepare a written statement of its determinations with respect to each of the following:

(1) Growth and population projections for the affected area.

(2) The location and characteristics of any disadvantaged unincorporated communities within or contiguous to the sphere of influence.

(3) Present and planned capacity of public facilities, adequacy of public services, and infrastructure needs or deficiencies including needs or deficiencies related to sewers, municipal and industrial water, and structural fire protection in any disadvantaged, unincorporated communities within or contiguous to the sphere of influence.

(4) Financial ability of agencies to provide services.

(5) Status of, and opportunities for, shared facilities.

(6) Accountability for community service needs, including governmental structure and operational efficiencies.

(7) Any other matter related to effective or efficient service delivery, as required by commission policy.

(b) In conducting a service review, the commission shall comprehensively review all of the agencies that provide the identified service or services within the designated geographic area. The commission may assess various alternatives for improving efficiency and affordability of infrastructure and service delivery within and contiguous to the sphere of influence, including, but not limited to, the consolidation of governmental agencies.

(c) In conducting a service review related to drinking water or wastewater services, the commission shall to the best of their ability identify all regulated providers of the relevant service within or adjacent to the applicable spheres of influence of the reviewed agencies in Section 56430(b)

(~~c~~d) In conducting a service review, the commission may include a review of whether the agencies under review, including any public water system as defined in Section 116275, are in compliance with the California Safe Drinking Water Act (Chapter 4 (commencing with Section 116270) of Part 12 of Division 104 of the Health and Safety Code). A public water system may satisfy any request for information as to compliance with that act by submission of the consumer confidence or water quality report prepared by the public water system as provided by Section 116470 of the Health and Safety Code.

(~~d~~e) The commission may request information, as part of a service review under this section, from identified public or private entities that provide wholesale or retail supply of drinking water, including mutual water companies formed pursuant to Part 7 (commencing with Section 14300) of Division 3 of Title 1 of the Corporations Code, mobile home parks formed pursuant to Part 2.1 (commencing with Section 18200) of Division 13 of the Health and Safety Code, and private utilities, as defined in Section 1502 of the Public Utilities Code.

(~~e~~f) The commission shall conduct a service review before, or in conjunction with, but no later than the time it is considering an action to establish a sphere of influence in accordance with Section 56425 or 56426.5 or to update a sphere of influence pursuant to Section 56425.

(f)The commission shall conduct a public hearing for which notice has been published, to consider the service review and written determinations prepared under subdivision (a). Notice of the public hearing shall be provided to agencies that provide one or more services evaluated in the review.

(g)The commission shall notify in writing all agencies that provide one or more services evaluated in the municipal service review within 30 days following the commission's adoption, approval, or otherwise concluding action on the written determinations prepared under subdivision (a). The notification shall include a listing of the written determinations made by the commission.

(1) Agencies receiving notification must review the communications, including the relevant written determinations at a noticed public meeting.

(2) Agencies must transmit to LAFCo written confirmation that they have received the review in a public meeting within 6 months.

(3) Agencies which fail to transmit written confirmation with the commission required by this section within one calendar year of notice by the executive officer shall not thereafter, and until those conformations are completed, issue any bonds or incur indebtedness of any kind.

SECTION 4. Section XXXX of the Health and Safety Code is amended to read:

(a) No later than December 31, 2026, each mobile home park that operates a public water system shall submit to the local agency formation commission for its county a map depicting the approximate boundaries of the property that mobile home park serves.

(b) A mobile home park that operates a public water system shall respond to a request from a local agency formation commission, located within a county that the mobile home park operates in, for information in connection with the preparation of municipal service reviews or spheres of influence pursuant to Chapter 4 (commencing with Section 56425) of Part 2 of Division 3 of Title 5 of the Government Code within 45 days of the request. The mobile home park shall provide all reasonably available nonconfidential information relating to the operation of the public water system. The mobile home park shall explain, in writing, why any requested information is not reasonably available. The mobile home park shall not be required to disclose any information pertaining to the names, addresses, or water usage of any specific shareholder. This subdivision shall not be interpreted to require a mobile home park to undertake any study or investigation. A mobile home park may comply with this section by submitting to the local agency formation commission the same information that the mobile home park submitted to the State Water Resources Control Board Division of Drinking Water.